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# FINANCIAL LITERACY AND EDUCATION: THE EFFECTIVENESS OF GOVERNMENTAL AND PRIVATE SECTOR INITIATIVES

## HEARING

BEFORE THE

## COMMITTEE ON FINANCIAL SERVICES

## U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

APRIL 15, 2008

Printed for the use of the Committee on Financial Services

**Serial No. 110–105**

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# FINANCIAL LITERACY AND EDUCATION: THE EFFECTIVENESS OF GOVERNMENTAL AND PRIVATE SECTOR INITIATIVES

**Tuesday, April 15, 2008**

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
*Washington, D.C.*

The committee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Maloney, Velazquez, Watt, Sherman, Meeks, Moore, Hinojosa, Clay, Baca, Miller of North Carolina, Scott, Green, Cleaver, Klein, Foster; Castle, Manzullo, Biggert, Capito, Feeney, Hensarling, Garrett, and Heller.

The CHAIRMAN. The hearing will come to order. This is one of those hearings that is more important than it is sexy. Financial literacy has been a cause that has been championed by many on this committee for some time.

The gentlewoman from Illinois, Mrs. Biggert, has long been an advocate of it, as well as our colleague from Texas, Mr. Hinojosa, who will be joining us also. It was hard to get traction for public attention for a while, but we are now in a financial downturn in our economy in which a lack of financial literacy is a contributing factor. And so we hope now to use the attention we have gotten to engage people in this effort.

I want to say as part of this that obviously there have been some criticisms made of some of our financial institutions. One of the best things that can be done both for the economy and from the standpoint of alleviating the economic difficulties of people in the lower economic sectors is to help them become customers of banks and credit unions. One of the things that we should be clear about is that people who stay outside the banking system pay a much higher set of transaction fees for some basic things than most of us in this room do. Check cashing fees, payday loans, high charges for the transmission of funds to relatives in another country—all of those are higher for people on the whole outside the banking system or the credit union system than they would be if they were in there.

So, helping people understand the importance to them—take some of those seats there. You don't need to stand. There are some seats over there. If there are empty seats, you can sit in them. There are some seats over there, too.

Helping people understand the importance to them of taking advantage of that set of financial institutions, and educating them onto some basics as to what they should and shouldn't do, these are very important things. So we are glad to have this hearing to focus attention on it. And if there are ideas about how we can further financial literacy, you have people very ready to act on it.

As I said—we are joined now by the gentleman from Texas—the gentleman from Texas and the gentlewoman from Illinois have been leaders in this effort, and I think it is now clear to the whole country how important that effort is. So, we welcome the witnesses. And the gentlewoman from Illinois is now recognized.

Mrs. BIGGERT. Thank you, Mr. Chairman, and thank you for holding this hearing today on such an appropriate day—tax day—and during an appropriate month—April—which has for several years been recognized as National Financial Literacy Month.

As the co-founder and co-chair of the House Financial and Economic Literacy Caucus with Congressman Hinojosa, I was very pleased when, in January, President Bush launched the President's Advisory Council on Financial Literacy. About 5 years ago, in 2003, I actually introduced a bill, the SENTS Act, that is S–E–N–T–S Act, that would have established a commission like this one with a mission of coordinating both the private and the public sectors' financial literacy efforts. Unfortunately, the Senate would only agree to half of that idea, so thus was born the public sector Financial Literacy and Economic Commission, or FLEC.

But we have frankly wanted a commission that would bring together the best of both worlds, both the private and public sectors, to attack this problem. It turns out that what was true in 2003 is still true today. Teaching financial literacy requires cooperation between government and industry. The government can't, and frankly shouldn't be, solving this problem on their own. And make no mistake, we have a problem. The savings rate is still hovering around zero; 10 million Americans are unbanked; and there were 2.2 million foreclosure filings in 2007. The front page of newspapers across the country proclaim that millions of Americans are losing their homes because they were not ready to be homeowners.

Some of our financial challenges are a result of the slowing economy, but many of them are the direct result of families who don't have the knowledge and the tools they need to hold a mortgage or manage credit risk and savings. I think a good place to start would be what I call emergency response scenarios, or teachable moments. After the 2005 Gulf Coast hurricanes, I called on then-Treasury Secretary Snow to convene an emergency meeting of the FLEC to coordinate the financial recovery efforts of 20 Federal agencies. And when the mortgage crisis hit, many private sector organizations coordinated with the Treasury to set up the HOPE NOW initiative to help troubled homeowners keep their homes.

These are commendable efforts, but I would argue that they could be implemented more often and with greater speed and greater effectiveness with a permanent public-private partnership as was envisioned in the 2003 legislation. Such an entity could quickly deploy financial literacy initiatives to help Americans make educated decisions about their finances.

A longer-term goal that we need is that we need this public-private group to help direct the development of new, more effective methods of teaching sound money management skills to all age groups, from toddlers to seniors. And we need to encourage more States to integrate personal financial education into their K through 12 curriculum guidelines. With the right education, today's children will become tomorrow's smart investors, entrepreneurs, and business leaders.

We also need to give Americans access to the tools they need to save and invest money. At the start of the 110th Congress, I introduced a bill called the 401 Kids Family Savings Act of 2007. This bill would allow parents and family members to set aside money in a child's account that will accumulate interest tax-free and can be used for college tuition, a first home, or even retirement if they keep it going that long.

But this is only one idea. Once again this year, many ideas will be on display at the Financial and Economic Literacy Caucuses' Annual Financial Literacy Day Fair this April 28th. It's a great way to see what the various groups are doing, and I encourage everyone to attend. Americans are a diverse group and we all share some very basic financial needs. We need to be prepared for tuition costs, a mortgage, health care, and retirement. We need a financial cushion against unexpected challenges like the death of a family member, and we need the capital necessary for new entrepreneurs to launch the start-ups and open the small businesses that drive this economy. Every American should have the opportunity and the know-how to fulfill each of these goals.

How can we better coordinate the public and private sector efforts? How can we help Americans to become more financially savvy? What works and what doesn't work? How do we reach Americans during those teachable moments following natural disasters, the classroom, at the workplace, or on tax day? Who should coordinate these efforts? How can we simplify, rebrand, and entice Americans to use existing private and tax-free Federal savings vehicles to invest and save for their future? These are all questions that I am confident that our witnesses today will address.

What we really need are good, affordable ideas, and those rarely come from Congress. I hope that today's witnesses can shed some light on the subject and point us in the right direction. We need to get this right.

Again, thank you for holding this hearing, and I yield back.

The CHAIRMAN. Next, another leader in this effort to promote financial literacy, the gentleman from Texas, Mr. Hinojosa, at whose request this hearing has been held.

Mr. HINOJOSA. Thank you, Chairman Frank, and Ranking Member Bachus. I want to express my sincere appreciation for you holding this important and very timely hearing today on financial literacy.

This committee has held two or three hearings on financial literacy in the past, and I look forward to working with the chairman on additional hearings on financial literacy either later this year or sometime in the 111th Congress.

Throughout my political career, I have been dedicated to moving my constituents away from payday lenders, predatory lenders, and

check cashers and into such mainstream financial entities as banks, credit unions, and other financial institutions. It is my hope that by moving them into the financial mainstream, my constituents and others in the United States will be able to open checking and savings accounts, establish credit, and eventually realize the American Dream of homeownership.

One of the ways I work towards this goal is through financial literacy and encouraging a collaboration of the private and public sectors. Over the past 6 years, I have worked very closely with my good friend and colleague, Congresswoman Judy Biggert, to shed light on the need for improved financial literacy rates in the whole United States. In 2005, Congresswoman Biggert and I co-founded and currently co-chair the Financial and Economic Literacy Caucus. At present, we're proud that there are 79 Members of Congress who have joined and participate actively in this caucus.

Establishing good spending and savings habits early on is crucial, which is why we need to work more closely with the Department of Education, with the Federal Government, and with States and localities to supply our students with teachers who can teach not only theoretical economics but also pragmatic financial literacy, such as how and why to open a checking account and/or a savings account, and how to pay bills on time, obtain a free copy of their credit report, and establish good financial planning habits.

We also need a streamlined way to provide financial literacy education to adults. Chairman Frank, our government should lead by example. It should coordinate and communicate a unified message on financial literacy and help us establish a national strategy which, according to the GAO, the Financial Literacy Education Commission has failed to do.

We should authorize and appropriate such funds as necessary to create a broad-based public awareness campaign. FLEC has failed to produce a multi-media campaign as required in Title 5 of the FACT Act, despite having had 4 years to do so. I am proud that Texas is one of the few States that requires some form of financial literacy for graduation from high school as well as permits its residents to impose credit freezes.

Mr. Chairman, I look forward to hearing from our witnesses here today and hope to coordinate and collaborate with them on financial literacy events and ideas in the future. At this point, I ask unanimous consent to enter into today's record the following documents which have been turned in by people who could not come and testify. They include—and I will read them all: A copy of Jump$tart's joint press release with Chairman Bernanke; a copy of Charles Schwab's Parents and Money Survey; the Executive Summary of the Employee Benefit Institute Retirement Confidence Survey; the testimony of the American Financial Service Association Education Foundation; the statement of Richard Woods of Capital One; the statement of Consumer Action; the comments from the Networks Financial Institute; the statement of the North American Securities Administrators Association; the statement of the Consumer Bankers Association; the statement of the National Association of Federal Credit Unions; the testimony of the American Institute of CPAs; the 2007 National Council of Economic Education Survey; the comments from the National Youth Involvement Board;

the press releases from the FDIC; the GAO report on Financial Literacy and Education Committee; and finally, H. Res 1079, a resolution recognizing the goals and ideals of Financial Literacy Month.

And with that, Mr. Chairman, I yield back.

The CHAIRMAN. The gentleman from Texas.

Mr. HINOJOSA. Do I have unanimous consent to enter—

The CHAIRMAN. Yes. Without objection, those items will be inserted into the record.

Mr. HINOJOSA. Thank you.

Mr. HENSARLING. Thank you, Mr. Chairman. And let me thank you for calling this hearing. I think it is a very, very important hearing that we are having today. And as we have spent a lot of time dealing with the subprime mortgage meltdown, I think we have all concluded there are a number of causes underlying the economic challenges our Nation faces, but at least one of the causes was that there were hundreds of thousands of people who entered into financial transactions that fundamentally they did not understand.

Now in the time that I have served on this committee, all too often I feel that a number of my colleagues, when faced with such a situation, conclude that when there are economic transactions that they view as unwise for a consumer, or perhaps too complicated for a consumer to understand, that it is incumbent upon us to outlaw them. Now I hold personal freedom in higher esteem. I do not believe the answer is to take away the freedom and the economic freedoms of our fellow citizens but instead to help inform and educate them as to the nature of the transactions into which they enter.

And so I have always been a huge advocate, and I thank the gentleman from Texas and the gentlelady from Illinois for their leadership on this issue, and I think that we need to search in this committee for different ways that we can be more effective in helping educate the American populace on the nature of the economic transactions into which they enter. We need effective disclosure, not necessarily voluminous disclosure, and we need to educate and inform, not to take away their personal freedom.

So, I look forward to hearing from the witnesses, and I would note also that sometimes there are limited opportunities to truly work on a bipartisan basis in the committee, and I certainly believe and hope that this is one of those opportunities, and I hope it is an opportunity that we seize.

Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. The gentleman from Missouri.

Mr. CLEAVER. Mr. Chairman, I have a very short statement. I'm more interested in the responses from the panel. When you look at the fact that only 32 percent of parents have regular discussions about financial matters with their children, it suggests that we have a major problem. And added to the fact that the most—the wealthiest one percent of the U.S. population holds more wealth than the bottom 90 percent combined, and so the one percent probably would represent also the children who are aware of and involved with financial matters as children, and it ends up creating havoc in the homes.

I had a young man who graduated from college and wanted to go into the rap world, which is fine. I'm not a rap person, but he wanted to go into the rap world. He went out and borrowed money from the Jo-Jo Finance Company and never even paid any attention to the fact that he was paying 21 percent interest, because he had no awareness of those kinds of matters.

In my real life, I am a United Methodist pastor. Most people believe that the majority of divorces in the United States are caused by infidelity, but they are very, very wrong. The overwhelming majority of divorces are caused by financial issues, 57 percent. And it is usually the people in the lower economic realm because they have no knowledge about financial matters. I am hoping that as we become "dialogical" today that some of you will have some offerings that would allow this committee to perhaps move in the direction of long-overdue financial literacy.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from New Jersey.

Mr. GARRETT. I thank the chairman. I thank the members of the panel as well for being here. If there is ever a time for the need for more financial literacy, it is today. I would like to commend the action of a whole host of organizations that are really trying to come to the point to address this. Back in my home district, you have local credit unions and what have you. They're out there doing the work of small bankers, and others in the banking institutions are trying to lend their hand as well. And one new one I just found out about 2 weeks ago, even collection agencies, who may be on the other side are actually opening up their offices and servicers as well to try to educate consumers in the future how they cannot get into that situation next time around.

The flip side of all that, however, is we have to make sure that the Federal Government doesn't send any miscues to lenders—or to borrowers—in the future. Just three quick points. One, maybe we did that, maybe the Federal Government did that when we encouraged people to get engaged, involved with no downpayment homes—no downpayment loans on homes, when they really weren't in a situation to properly buy that house.

Secondly, maybe we sent a miscue just earlier this year when we passed a stimulus package sending money back to people, $600, $1,000, what have you, and said go out and spend the money instead of paying off some of your debt or investing it.

And thirdly, we might right now be sending a miscue to borrowers as far as their financial literacy with regard to other stimulus packages or bailout proposals which are basically saying to the people, if you were involved in risky behavior in the past, we might actually be rewarding that behavior by "bailing you out," versus the guy on the other side of the street who was more risk-adverse and knew—had a little bit more information as far as financial literacy, did not engage in that, and we're really not going to be doing anything for you. We're just going to let you go your own way.

So I think the Federal Government has some responsibility in all this as far as the miscues, and I would be curious to hear your comments on all of those points. Thank you so much for coming to this hearing today.

The CHAIRMAN. The gentleman from New York.

Mr. MEEKS. Thank you, Mr. Chairman. Thank you for holding today's hearing on financial literacy and education, the effectiveness of government and private sector initiatives. I also want to thank my good friend, Ruben Hinojosa, for having this month dedicated as Financial Literacy Month. I think it's something that is bringing the awareness to all Americans and I thank Ruben for his vision to make sure that we bring and make financial literacy something that all are looking at.

You know, when we look at since, you know, here we are in April 2008, we are in some of the most dramatic and challenging economic conditions than we have been in the last 35 years. We have an ever-growing number of economists who are saying and now fear that not only is our economy in the middle of a recession, but that recovery may be much longer than we expect. We don't know where the bottom is.

You look at the toxic combination of tight credit, falling home prices, mounting losses for banks, high commodity prices—oil recently hit an all-time high of $111.76—and a plunging consumer confidence level that has cut into consumer spending, has sent our Nation into a financial freefall, and we don't even know where the bottom is yet.

One of the things we do know that got us here is that there have been individuals who signed documents and really didn't understand what they were signing. They looked at products and made decisions without really understanding why they are doing it. If in fact they were financially literate, if they understood the document, then they could understand the different products that were out there, and we may have been able to avert some of the problems that we currently face.

The key is educating individuals. The key is trying to reach particularly young and old now, but I always have been trying to focus recently on a lot of the young in schools whose parents, as Mr. Cleaver indicated, you know, they may not have been financially literate themselves, coming from a different time. But they need their children at least to be able to understand and can help them.

And so financial literacy is making sure, to me, for example, should be required in every school now. It should be just like mathematics and anything else. It should be a required course. Because I don't see how you can continue in the 21st Century without being financially literate. It's like not being able to read. People can take advantage of you when you don't understand. They can't take advantage of you when you do.

And so I am—and I think that it's therefore important for us, those of us who are Members of Congress, those of us who are in the private sector, those of us who are in the not-for-profit sector, to figure out how we can all work collectively together so that we can provide that kind of service, that kind of literacy, especially to our public schools, so that we can begin to educate our young people and they become financially literate. It is critical that we collaborate in this manner.

So, Mr. Chairman, I thank you for this hearing. I look forward to hearing what the witnesses have to say and how they think that we should tackle this issue and how we can make sure that every

child—whether they are rich or poor, black, brown, red, or yellow—has an opportunity to understand and become financially literate so they will not fall victim to some of the individuals that they have been utilized or predatory lenders have taken advantage of them, and we can possibly avoid the kind of financial disaster this country is currently facing today.

Thank you, Mr. Chairman, and I yield back.

The CHAIRMAN. Final statement, the gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. I especially thank you and Ranking Member Bachus. I think that this is a most necessary hearing. And I say so because not only must we concern ourselves with persons being able to understand that which is codified, but it's also equally as important that persons understand the process.

I would like to just share this brief vignette to better explain. I happen to myself have purchased a home or two in my lifetime, and I did not know about the yield spread premium. Had I known about the yield spread premium, I suspect that I would have shopped around. But I went to the very first person who agreed to give me a loan at a certain interest rate, and I took it, because it seemed like a good deal and because it seemed like this person was on my side.

I think that understanding the process, understanding that you need to get more than one opinion about your creditworthiness, is exceedingly important. And I think that financial literacy will not only help persons to understand that which they can read and comprehend, but also understand that this process entails more than visiting with one person who may give you one opinion about your creditworthiness.

I am honored to be here today. I regret that I will have to leave because of pressing business elsewhere. But I assure you, I will be chronicling what is happening, and I thank you, Mr. Chairman. I yield back the balance of my time.

The CHAIRMAN. Before proceeding with the panel, I want to ask unanimous consent to include in the record: Ariel Capital Management, the Ariel Schwab Blackpaper Decade of Research on African-American Wealth Building and Retirement Planning; a statement from the Credit Union National Association; a statement from the National Association of Federal Unions; a statement from the Financial Industry Regulatory Authority; and a statement from the National Association of Realtors.

Without objection, they will all be included in the record.

We will now begin the testimony with the Treasurer of the United States, representing the Department of the Treasury, Anna Escobedo Cabral. Treasurer Cabral.

**STATEMENT OF THE HONORABLE ANNA ESCOBEDO CABRAL, TREASURER OF THE UNITED STATES, U.S. DEPARTMENT OF THE TREASURY**

Ms. CABRAL. Good morning. Thank you, Chairman Frank. I appreciate the opportunity to be here before you today. I thank all the members of the committee who have joined us for this important hearing. I especially want to thank Congresswoman Biggert and Congressman Hinojosa for their work in creating the Economic Lit-

eracy Council or Caucus. It has, I think, been particularly important, and also for the work that you do in terms of organizing the fair every year, and for supporting Financial Literacy Month in April. Thank you to the House for also passing the resolution that did that very thing this April.

The attention, of course, to financial literacy is very timely. Today, there are many Americans who are struggling. We have young adults who are struggling with debt, families who are struggling to understand the terms of their mortgages, and older Americans struggling with retirement issues. These are complex problems, and there are no simple solutions. Financial literacy will not cure all the problems that plague us, but a healthy dose may well be the preventive medicine that we need or that our Nation needs at this time.

During my term in office as Treasurer, I have had the privilege of traveling across the country from the Bay Area to New York City, from El Paso to the far corners of Maine and all the cities and towns in between, spreading financial literacy and the message of its importance to community leaders, and State and local leaders, because of course, there is really no message perhaps that is more important to me as the daughter of farmworkers who struggled very hard to make a living and who lived in communities where being unbanked was very commonplace and where financial education often did not exist, it is a very personal issue for me.

It is also, I have found, and I am very proud to say, an important issue for both the President and Secretary Paulson. They are equally committed to financial literacy. And what I would like to do is to spend a few minutes talking about the three ways in which the Department itself is addressing financial literacy. I would like to begin by describing some of the work, or at least acknowledging the work of the bureaus and offices that work in the Department of the Treasury, many of whom are actively engaged in a series of very specific programs, some of which we will hear from other witnesses about today.

But most of the work at the Treasury Department is actually conducted in the area of financial literacy by the Office of Financial Education. It was established in 2002, and it has undertaken a tremendous outreach effort as a result. The staff has traveled to 47 States plus the District of Columbia and Puerto Rico. It has held 369 financial education sessions, reaching more than 30,000 people. The office produces and designates guidelines for quality financial education. It provides technical assistance to local programs. It forms partnerships with groups nationwide to connect them with resources, and it coordinates the activities across the Federal Government known of course as the Financial Literacy and Education Commission.

The Commission is a very important way in which we do our work, the second topic for my comments this morning. An abundance of our efforts are through this Financial Literacy and Education Commission. This 20-agency entity, established by the Fair and Accurate Credit Transaction Act of 2003, gave the Commission and Treasury four mandates: A Web site; a hotline; a multimedia campaign; and a national strategy. I am pleased to provide some progress on where we are in each of those.

To begin, concerning the Web site, in October 2004, the Commission did launch mymoney.gov, a Web site designed to be a one-stop shop for Federal financial education information. The Web site is available in both English and Spanish, and the Web site topics include paying for education, saving and investing, homeownership, privacy and frauds and scams, or how to avoid them.

Most recently the Commission added a link explaining the economic stimulus payments, and on the front page we have features about how to avoid foreclosure rescue scams. The site has 402 links and has had more than two million hits over the course of its lifetime.

The toll-free hotline was established in October of 2004. It is 1–888–MyMoney, and it is operated by the General Services Administration. It is also available in both English and Spanish, and it enables callers to order free MyMoney tool kits, which contain various documents available through the Federal Government in a collection that is free of charge. Since its launch in October 2004, the MyMoney hotline has received more than 20,200 calls.

As regards the multimedia campaign, we are currently working with the Ad Council on the production of a campaign that will address the topic of credit literacy, emphasizing the impact of one's credit score. The project has progressed through the research, focus group, and creative stages and is now in production. We should see this campaign launched this summer, and it will feature television spots, radio spots, and a new Web site.

The national strategy is the fourth topic I would like to report on. The FACT Act also required the Commission to develop a national strategy for financial literacy. In April of 2006, the Commission released, "Taking Ownership of the Future: The National Strategy for Financial Literacy." The Strategy is a comprehensive blueprint for improving financial literacy in America. Approximately 7,600 copies of the Strategy have been distributed, and the Strategy has had 102,200—or 860 downloads. So there is a significant amount of interest on the part of the Nation, and particularly the individuals working to lead programs dealing with financial literacy.

The Strategy actually developed so that at the end of each chapter, there are numbered Calls to Action assigned to the Federal Government or to the private sector or to individuals. Since the launch of the Strategy 2 years ago, the Commission has been hard at work implementing those Calls to Action, which allow us to measure performance on many initiatives that would not be possible without the cooperation of all 20 member agencies. The progress on the Strategy's many Calls to Action can be found in my written testimony, which I hope will be included in the record, but are quite detailed.

In addition, in December of 2006, the Government Accountability Office reported on the Commission's activities and made several recommendations. The Commission welcomed the insights of GAO on how we could better accomplish our important mission on behalf of the American people. The Commission incorporated many of the GAO recommendations into its 2007 revisions to the Strategy, including definitions of financial education and financial literacy, the planning to conduct usability testing and to measure customer sat-

isfaction with MyMoney.gov, and an independent review of the Federal financial education programs and resources, with the first series of assessments to be completed in 2009.

In addition, the GAO recommended the Commission work closely with the private entities and State and local governments to improve financial literacy. In response, Treasury and the Office of Personnel Management co-hosted the Commission's inaugural meeting of the National Financial Education Network of Federal, State, and Local Governments at the Department of the Treasury. We continue to work to respond to the GAO recommendations.

A third way that the Department has been working to improve financial literacy is to support the Financial Literacy Education Council created recently, the President's Advisory Council, by Executive Order on January 22, 2008. The Council, which was created to help America remain competitive and to assist the American people in understanding and addressing financial matters is comprised mostly of financial education leaders from the private sector and the nonprofit sectors, with one State government representative. We believe this advisory group, led by Chairman Charles Schwab, and Vice Chairman John Hope Bryant, will help increase the level of our Nation's resources dedicated to financial literacy.

In conclusion, I hope this discussion has been useful in terms of an overview of the work of the Department of the Treasury. As Americans, we share the desire to provide for our families, to achieve financial security, and to have a comfortable retirement. Being financially literate makes those goals more attainable. The Department of the Treasury, Secretary Paulson, and the President are dedicated to increasing financial literacy among the American people so that they may lead better, more prosperous lives. Through our continued outreach and education effort, as well as through the ongoing work of both the Financial Literacy and Education Commission and the President's new Advisory Council on Financial Literacy, Treasury can help more Americans become financially literate.

I look forward to the questions that follow the panelists' testimony. Thank you.

[The prepared statement of Treasurer Cabral can be found on page 93 of the appendix.]

The CHAIRMAN. Next, JoAnn Johnson, Chairman of the National Credit Union Administration. Ms. Johnson.

## STATEMENT OF THE HONORABLE JOANN JOHNSON, CHAIRMAN, NATIONAL CREDIT UNION ADMINISTRATION (NCUA)

Ms. JOHNSON. Thank you, Chairman Frank, for this opportunity to testify regarding the effectiveness of the public and private sector financial literacy efforts. I would like to commend the committee first of all for raising the awareness of this important topic, and I would especially like to acknowledge Congresswoman Biggert and Congressman Hinojosa's efforts for continuing to be champions of this cause.

Financial literacy is an important facet of outreach efforts of both NCUA and the credit union industry. My testimony today will outline those efforts, plus NCUA's involvement on the Financial Lit-

eracy and Education Commission, with specific detail about my role as chairman of the MyMoney.gov Web site subcommittee.

NCUA has a long history of providing financial education programs for use by credit unions and their members. From the 1960's, when NCUA's predecessor regulator, the Bureau of Federal Credit Unions, provided low-income credit unions with a consumer education program called Project Moneywise, to the present, where NCUA training workshops routinely put financial literacy front and center in over 20 sessions annually.

NCUA has placed a high priority on the value of basic, practical consumer financial education. Over the last decade, NCUA's Office of Small Credit Union Initiatives has provided financial literacy training to almost 2,000 credit union staff and volunteers attending these workshops. Other NCUA workshops have focused on topical financial education, such as homeownership education and retirement saving, VITA tax preparation, and the financial needs of military communities.

Additionally, NCUA promotes financial literacy through the Financial Literacy Library located on our Web site. This consumer clearinghouse of information runs the gamut of personal finance topics from ID theft prevention to prudent use of credit cards to deposit insurance. Other governmental and private sector resources, such as FDIC's Consumer News and Jump$tart are also linked.

NCUA is also using our congressionally appropriated revolving loan fund to provide financial assistance to low-income credit unions as they promote financial education. Since 2005, NCUA has awarded just over $500,000 in grants to credit unions specifically for financial education programs.

Promotion of partnerships among credit unions and between credit unions and community and governmental organizations has also been a hallmark of NCUA's efforts. Again, communication and dissemination of information about opportunities have been the key to success. One high profile effort in which I have been personally engaged is Biz Kid$, a PBS series devoted exclusively to teaching young people about financial literacy. The credit union industry has underwritten this program, which is currently on air in 47 States.

I was pleased to do a promotional video stressing the fundamental importance of financial education efforts directed at our Nation's youth. I am confident that these types of initiatives will pay big dividends in the form of financially literate young adults entering the marketplace. We can't continue to afford the alternative.

Credit unions themselves are doing a good job of promoting financial education to their members. A 2006 NCUA survey of credit union activities showed that 60 percent offer financial counseling that specifically incorporates financial education. Forty-two percent have dedicated financial literacy programs for their members.

My written statement details some of the best practices that we observe in the industry. Many have found the best teaching moment is at the point of delivery of services while applying for that first credit card, that car loan, or making the decision to purchase a home.

I am also pleased to serve as chair of the MyMoney.gov Web site subcommittee, which is part of FLEC. This interactive Web site

serves as a clearinghouse of information about Federal, State, and local financial education programs, grants, and materials, online calculators, and even a MyMoney 20 quiz designed to test a consumer's basic knowledge of finances.

It's important to note that this site, which contains over 400 links, doesn't allow any commercial content and is strictly for the benefit of consumers who want to increase their financial literacy. MyMoney.gov has received 2.3 million hits to its English and Spanish language sites since 2004 and has aided in the distribution of over 1.5 million publications to consumers. We are constantly engaged in enhancements to the site and its content, evidenced by the recent addition of a link to the HOPE NOW hotline to help consumers better respond to the housing crisis.

I have testified to this committee before on the importance of financial literacy, and the central role that I believe it can and will play in the lives of consumers. Both President Bush and Congress have taken tangible steps to place financial education at the forefront of efforts to protect and empower consumers, and NCUA is working to do its part to make sure that credit unions are fully involved.

The advertising slogan, "An educated consumer is our best customer," is particularly apt for today's discussion. Americans need to be more aware of how their money works. And while financial literacy is not a panacea or a substitute for strong consumer protection, NCUA will continue advocacy of basic financial literacy as a way to help consumers help themselves.

Thank you very much.

[The prepared statement of Chairman Johnson can be found on page 115 of the appendix.]

The CHAIRMAN. Next, we will hear from Dean Martin, the treasurer of the State of Arizona.

Mr. Martin.

**STATEMENT OF THE HONORABLE DEAN MARTIN, TREASURER, STATE OF ARIZONA**

Mr. MARTIN. Thank you, Chairman Frank, Ranking Member Bachus, and members of the committee. I'm honored to appear before you today as State Treasurer of Arizona to discuss the importance of financial education and building a successful partnership between public and private sectors in advancing this cause.

First, a little bit about my experience and background. I am a small business owner. I previously served as a State senator and was chairman of the Finance Committee, a senior member of Appropriations, and vice chairman of Judiciary. I was a founding board member for the Arizona chapter of the Jump$tart Coalition, a national financial literacy organization. I have volunteered my time to teach financial education classes in my community.

I appear here today as an elected official, the State Treasurer of Arizona. However, as a citizen and a taxpayer, I have serious concerns regarding the state of financial literacy in America.

The lack of financial literacy is a problem that spans every age group and every demographic. Our Nation is only as prosperous as our citizens. Our government relies on the solvency and prosperity

of our taxpayers so that they can pay them. So it's fitting that we come before you today, April 15th, tax day.

As the son of a math teacher and as a small business owner, I learned the value of a dollar and how to manage it at a very early age. Unfortunately, not every American has the same opportunity. The current level of financial literacy in the United States is woeful. Why is an issue of education important to the Committee on Financial Services? Because it's fundamental to the very survival of the financial services industry.

The current housing crisis and credit crunch has hit Arizona very hard. In 2005 and 2006, more than one-third of all mortgages that were issued were high rate or subprime loans. We are feeling the impact of this now as foreclosures continue to mount and tax revenues are plummeting. The slowdown is likely to continue for a while, as only half of the high-rate ARMs have reset, and the last will not begin to reset their rates until the first quarter of 2009.

Our own State legislature and governor have failed to fix the largest budget shortfall in Arizona history, and the largest in the Nation by a percentage over 16 percent. As of today, we are a matter of days away from having spent all the money in the general fund from revenues we expect to receive this year. The State of Arizona may not be able to make its May 15th payment to schools without some sort of action soon.

Clearly, the need for financial literacy is heightened by this crisis.

This morning, I want to provide you with a specific example of a need that is repeated again and again in many sectors, but in this case, it has global implications. In the Valley of the Sun, we are honored to have America's premier F–16 fighter training base, Luke Air Force Base. Airmen and women and their flight crews must be certified at Luke before they can be deployed to active duty.

The base commander was concerned about the retention of new airmen. He was losing enlistees to high debt. Either they could not afford to continue in the service, or in some cases, their high debts made them a security risk. For many of these enlistees, it was the first time they had ever been away from home, and they were receiving the biggest paycheck of their young lives. The temptation to rush out and buy a new sports car was very great. Many of these young enlistees wind up overextending themselves and getting upside down in their loans.

So should these airmen be prohibited from driving or owning sports cars? Sports cars are not inherently evil. They are simply products. The solution is not to ban the sports cars, because if it wasn't those cars, it would be motorcycles, stereo systems, or something else. The world is full of people who will gladly separate you from your money if you give them the chance.

Rather than trying to manage the personal finances of every airman on his base through regulation, the base commander chose to treat the disease of financial literacy, not just the symptoms. He approached the local credit union on base, Credit Union West, for help. Highly specialized classes were developed specifically for the base to teach them how to manage their own personal finances. Just as you would not hand a new enlistee an M–4 rifle without

training, the commander at Luke Air Force Base did not want to give one of his airmen a paycheck without training. Financial education had become a force readiness issue.

The solution is for the consumer to be armed with information and financial education. As members of this committee, you are in many ways faced with the same dilemma the base commander was. Do you regulate and outlaw certain financial instruments or consumer products? Do you bar certain classes of people from mortgages or credit cards because they might misuse them? Do you outlaw certain types of investments because some investors are overleveraged themselves, which will ultimately limit the options of consumers? Or do you choose the more difficult, but ultimately more rewarding, path of emphasizing education before regulation?

I think we know the answer by having this committee here today. The financial literacy industry—excuse me—the financial industry is willing to step forward and help with this cause. It's in their own best interest, in fact. They don't want to see their customers go bankrupt because they are the ones who don't get paid. Nearly every bank, credit union, and financial institution, as we've heard here today, has some sort of financial education program. Their goal is simple. They want their customers to be able to pay back their loans.

The financial industry should be an ally in our cause. This year, Arizona hosted one of the most exciting Super Bowls in recent memory. As the excitement began to build in the community, we decided to creatively promote financial education by tying curriculum to the game. In this example, we at the Treasurer's Office successfully struck a public-private partnership that didn't cost Arizona taxpayers a dime with Visa and the NFL to produce the "Financial Football" game. This game poses a number of questions in an entertaining and exciting way so they learn financial literacy without realizing that they're being taught, and incorporates lessons taught through Visa's Practical Money Skills for Life program, a free, award-winning, teacher-tested and approved money management program. And as I am the son of a math teacher, with a sister who is a kindergarten teacher, they both said this was a great program and they really enjoyed playing it themselves.

They also offer a cell phone download, which is a particularly effective way to reach the demographic of high school and college students and young adults, many of whom use their cell phones as their only form of communication.

The CHAIRMAN. Mr. Martin, we will need you to wrap this up soon, please.

Mr. MARTIN. Mr. Chairman, members, whenever there exists a disparity or inequity in understanding, there will be abuse. Do we blame the sports car and outlaw sports cars? Do we blame lenders and outlaw loans? This would mean leaving sports cars only to the rich and powerful; not a very American concept. Our Nation has always been successful because of capitalism, the freedom for people to take risks and be rewarded when they pay off, but also be responsible for their consequences. My fear is that during this crisis, Congress might try to regulate risk out of the system and limit financial services and instruments to the lowest common denomi-

nator of financial literacy. This approach would be quick to grab headlines, but would harm our global competitiveness as a nation.

There are times when certain financial instruments make sense. Complex and exotic financial tools have their place. We should not dumb down our financial system. We should elevate the literacy of our citizens to match. Rather than regulating to the lowest common denominator, we should work to elevate the financial understanding of the public. In this way, Congress can help level the playing field by helping consumers recognize if the financial deal sounds too good to be true, it probably is.

One of my greatest concerns for our Nation is the same one Thomas Jefferson had over 200 years ago. The accumulation of debt by our citizen's Federal and State governments—

The CHAIRMAN. Finish the sentence, please.

Mr. MARTIN. —puts our Nation at risk for being held as essentially slaves to foreign banks. We should not let that happen. We should not let our kids, our young adults, even our families put themselves in hock and their future in hock for a new sports car or iPod.

Thank you.

[The prepared statement of Mr. Martin can be found on page 134 of the appendix.]

The CHAIRMAN. Next, Ms. Sandra Braunstein, the Director of the Division of Consumer and Community Affairs at the Federal Reserve System.

**STATEMENT OF SANDRA F. BRAUNSTEIN, DIRECTOR, DIVISION OF CONSUMER AND COMMUNITY AFFAIRS, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Ms. BRAUNSTEIN. Thank you. Good morning, Chairman Frank, and members of the committee. I appreciate the opportunity to discuss the importance of financial education. Current market conditions underscore how important well-informed, financially savvy consumers are for the financial wellbeing of individual households and the overall economy.

Today's financial services industry is extremely diverse and complex. Consumers can choose among a wide variety of services, products, and providers when conducting financial transactions that were once primarily offered through depository institutions. Both advances in technology and new market players have dramatically changed how financial services are marketed, underwritten, and delivered.

Increased diversity in credit products has also brought increased responsibilities and risks to consumers, which makes it critical that consumers are well informed about their personal financial circumstances and the range of available products.

The level of competition and complexity in today's consumer financial marketplace highlights the need for effective financial education to help consumers evaluate and choose products that advance their financial wellbeing, not impede it.

Designing and delivering effective financial education presents numerous challenges. Among the most significant is that financial counseling and education is very resource- and time-intensive because of the individual nature of personal finances and differing

knowledge base of consumers. There is a very broad range of potential audiences, and their educational and informational needs vary greatly, a challenge that is compounded by the rapid development of products targeted to specific market segments.

Financial education efforts may also be constrained by gaps in math and reading literacy, which impede the comprehension of fundamental financial concepts.

Another challenge to delivering financial education is identifying the venue and delivery channels that facilitate consumers' participation in a program, as the demands of work and home often leave little time for training programs. Language and cultural differences can also present challenges in reaching consumers who can benefit from financial education, particularly immigrant communities.

Ideally, financial counseling would be available to consumers near the time at which they are making an important financial decision, such as whether to buy a home. Accordingly, an important aspect of consumer education involves the provision of useful and comprehensive financial product disclosures.

Over the last several years, the Board has engaged in extensive consumer testing of disclosures for privacy notices, credit cards, and mortgages in conjunction with our rule writing efforts for these products. The information we have gained from these sessions has helped us to better understand how consumers shop for financial products and services and what information they need to make decisions.

The Federal Reserve has a long-standing commitment to providing information and education to help consumers make informed financial decisions. Financial educational products and programs are offered by the Board in each of the 12 regional Federal Reserve banks. We provide a wide range of consumer education publications that offer consumers accurate and objective information about consumer financial products as well as their rights under consumer protection laws and regulations.

We also commit resources to providing leadership and technical assistance to national and local financial education initiatives. Given the scarce resources available to conduct financial education, it is important to ensure that available resources are being used effectively. Accordingly, the Federal Reserve is committed to conducting and promoting research on the efficacy of financial education programs to help inform policy and program design.

The Federal Reserve will continue to maintain its commitment to financial education. Financial education is essential to helping consumers make well-informed and beneficial decisions that enhance their financial positions and enhance efficiencies in the consumer financial marketplace.

At the same time, it is important to recognize that financial education is not a panacea. There remains a need for effective regulation and enforcement that is responsive to market evolutions to ensure that consumers are protected against abusive and fraudulent practices by unscrupulous players.

Thank you again for the opportunity to appear today, and I will be happy to answer any questions that the committee may have.

[The prepared statement of Ms. Braunstein can be found on page 73 of the appendix.]

The CHAIRMAN. Next, we have Robert Mooney, Deputy Director for Consumer Protection and Community Affairs at the FDIC.

**STATEMENT OF ROBERT W. MOONEY, DEPUTY DIRECTOR, DIVISION OF SUPERVISION AND CONSUMER PROTECTION, FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)**

Mr. MOONEY. Chairman Frank, Congresswoman Biggert, and members of the committee, thank you for the opportunity to testify on behalf of the FDIC.

Financial education is an essential tool for financial survival. Now more than ever, consumers need to know their rights and their options. The subprime mortgage crisis is a good example; informed borrowers might have fared better. At the same time, financial literacy alone is not the answer, and by no means should the lack of it be used to excuse irresponsible lending practices by lenders.

In 2001, the FDIC launched "Money Smart," an adult financial education program. Just yesterday, Chairman Bair announced that more than one million consumers have participated in an FDIC "Money Smart" program. This exceeds our goal, but we expect to reach many more. "Money Smart" is free, is not copyrighted, and is available in seven languages, in large print, and in Braille.

"Money Smart" is up-to-date. Last year, we updated information on how to evaluate and compare mortgage products, especially subprime. And, yesterday, Chairman Bair also announced the release of the new "Money Smart for Young Adults." This curriculum is tailored to high school and college level students ages 12 to 20. It is aligned with educational standards for all 50 States and the District of Columbia.

Financial education works when participants practice what they have learned. Last year, we completed a major, multi-year study on the effectiveness of "Money Smart." The goal was to measure, over time: first, whether trainees' knowledge improved; second, whether they intended to use the information; and, third, whether, months after the training, financial behaviors actually improved. This Gallup survey found that the training participants were more likely to open savings and checking accounts, save money, use a budget, and develop financial confidence.

Hopefully, these results will motivate banks to offer more financial education, along with affordable financial and banking services. The FDIC creates opportunities for banks to do both. We have undertaken two major initiatives: the launch of the Alliance for Economic Inclusion in 10 communities across the country; and two major surveys to gather extensive data about the unbanked. The Alliance for Economic Inclusion is a network of broad-based coalitions of banks, community groups, and others, including agencies at this table, working across the country to expand access to basic financial services and financial education.

More than 700 banks and organizations have joined these coalitions nationwide. In less than one year, 28,000 bank accounts were opened; 29,000 consumers received financial education; 41 banks offer affordable, small dollar loan programs; and 21 banks now offer remittance services. With regard to the surveys, in keeping with the Federal Deposit Insurance Reform Conforming Amend-

ments Act of 2005, we have initiated biennial surveys of FDIC-insured institutions on their efforts to serve the unbanked. We also plan a household population survey on the subject with the U.S. Census.

To conclude, consumers who know the right questions to ask will have the confidence to challenge products and practices too good to be true. The FDIC's 2007 Gallup survey shows programs like "Money Smart" can change the financial lives of consumers for the better. This concludes my testimony and I look forward to your questions.

[The prepared statement of Mr. Mooney can be found on page 171 of the appendix.]

The CHAIRMAN. Thank you.

Next, Cassandra McConnell, the Director of Consumer and Community Affairs in the Office of Thrift Supervision.

**STATEMENT OF CASSANDRA McCONNELL, DIRECTOR, CONSUMER AND COMMUNITY AFFAIRS, OFFICE OF THRIFT SUPERVISION (OTS)**

Ms. MCCONNELL. Good morning, Chairman Frank, and members of the committee. Thank you for the opportunity to testify during financial literacy month on the views of the Office of Thrift Supervision about the importance of financial literacy.

Nothing can confirm the continuing and urgent need of financial literacy more strongly than the housing market turmoil currently facing this Nation and the role played by consumers in buying homes they cannot afford under terms they all too often did not understand. Although there is no substitute for prudent underwriting, enforcement of consumer protection laws, and effective disclosures, financial literacy is critical to a financial marketplace where consumers make informed decisions about their financial futures.

Financial education about important issues such as home mortgages, family budgets, checking accounts, credit cards, and the value of savings should start in our schools, so the young adults entering the workforce and perhaps looking forward to the purchase of their first home will have the knowledge they need to make sound, financial decisions.

Evidence just last week from the Jump$tart Coalition about following financial literacy scores by high school seniors shows that far more needs to be done to achieve this goal. As we know, the price of failure is the unwelcome prospect of significant harm to this country's economic wellbeing. The OTS strongly supports the work of the Financial Literacy and Education Commission, and think the strategies outlined by the Government Accountability Office to expand the work deserves continued focus.

The OTS also recommends a study to explore ways to bring the most successful financial education programs to scale for a national impact on as many Americans as possible. At OTS, we have been expanding our financial literacy initiatives both on our own and in concert with other Federal banking agencies.

We resumed publication last year of our community affairs newsletter, "The Community Liaison," which covers consumer issues like how to avoid mortgage foreclosure prevention scams and how

to take advantage of programs to help borrowers make their mortgage payments.

The OTS is upgrading its electronic dissemination of consumer-related information through a redesigned, public Web site scheduled to launch this summer. The information for consumers will be featured prominently on the home page and offerings for consumers will be expanded and key information will be easier to find.

The OTS also continues to encourage regulated institutions to develop cross-sector partnerships with community groups and consumer organizations to foster financial literacy. The OTS, like other banking agencies, provides favorable consideration under the Community Reinvestment Act for financial literacy programs such as credit counseling to low- and moderate-income families.

We have also joined the other Federal banking agencies in producing important publications for consumers; for example, the agencies issued consumer illustrations for non-traditional mortgages in May of 2007, and are currently finalizing illustrations to help consumers understand adjustable rate mortgages and similar products.

The OTS supports efforts to improve disclosures for consumers and appreciates the key role that private sector organizations play in offering financial literacy programs.

Thank you again, Mr. Chairman, and I look forward to answering your questions.

[The prepared statement of Ms. McConnell can be found on page 143 of the appendix.]

The CHAIRMAN. Finally, we have Barry Wides, the Deputy Controller for Community Affairs at the Office of the Comptroller of the Currency.

**STATEMENT OF BARRY WIDES, DEPUTY COMPTROLLER FOR COMMUNITY AFFAIRS, OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC)**

Mr. WIDES. Chairman Frank, Congresswoman Biggert, and members of the committee, I appreciate the opportunity to testify today about the OCC's role in financial literacy and education efforts.

My testimony discusses the many roles the OCC plays in promoting financial literacy. Financial literacy is a key component of ensuring fair and equal access to credit and banking services. Comptroller of the Currency John Dugan stressed the need to help National Bank customers become more engaged in sound, financial decisionmaking, since taking office.

The OCC has done much in recent years to share financial knowledge and best practices, leverage resources, and build financial literacy partnerships. We concentrate our literacy activities in three main areas: building public awareness; encouraging the financial literacy efforts of national banks; and guiding Federal regulations and policies.

Our public awareness efforts take several forms. Comptroller Dugan has taken the lead in highlighting this issue in speeches and keynote remarks during his visits around the country. OCC has mounted an extensive public service message campaign to local news media in English and Spanish, and we produce a range of

consumer advisories that are easily accessible on the OCC's expanded consumer protection Web page.

Last summer, the OCC launched, "HelpWithMyBank.gov," a unique Web site that answers more than 250 common questions drawn from the actual experience of OCC's customer specialists. HelpWithMyBank.gov links Web visitors to other resources and allows customers to file complaints about national banks or request additional information online.

The OCC's Community Affairs Department, which I direct, focuses on helping national banks become leaders in providing retail services to underserved communities and individuals. In addition to our headquarters staff, our community affairs officer teams around the country work with bank examiners in helping national banks to improve their financial literacy and outreach delivery programs. As a resource for our banks, we maintain an extensive library of financial literacy information on the OCC's Web site, and recent OCC publications target the needs of native Americans, small businesses, and the unbanked. The OCC also serves on the board of NeighborWorks America and participates on the Financial Literacy and Education Commission.

We work regularly with these and other national and regional partners, many of whom are with us at today's hearing, to support financial literacy and education programs and to find the most effective methods for their delivery. These experiences give us valuable insight into the importance of financial literacy on good financial decisionmaking. Moreover, this knowledge helps us as Federal regulators in implementing the Community Reinvestment Act, which provides incentives for banks to undertake financial literacy activities.

The OCC is currently working with the other Federal banking agencies to develop a narrowly defined change to the CRA regulations that would provide CRA credit for communities that are declining because of unprecedented levels of foreclosures and related economic factors. This has raised a related thought for consideration by the regulatory agencies; whether positive CRA consideration should also attach to financial literacy and education activities that benefit these same middle-income impacted areas and facilitate the short-term recovery.

Given the rising need for financial counselors to assist borrowers who are having difficulty meeting their mortgage payments, additional CRA incentives may be helpful to encourage additional bank partnerships with nonprofit housing counseling organizations.

Given the financial literacy challenges presented today, the time is right to bolster financial literacy for students, for working people, and for those facing retirement. We look forward to working with the other agencies on the Financial Literacy and Education Commission, the President's Council on Financial Literacy, the Financial Literacy and Economic Caucus here in this Congress, and your committee, to promote financial literacy and address the financial needs of all Americans. I appreciate the committee's time and look forward to answering your questions.

[The prepared statement of Mr. Wides can be found on page 206 of the appendix.]

The CHAIRMAN. At the outset, I want to thank Ms. Braunstein, in particular, for stressing that this is not a replacement for sensible regulation. I think we all agree with that.

Mr. Wides, I just have one question: Obviously, CRA is one of the ways in which we can do this, and I guess one of the questions is for the smaller banks that don't now have the service requirement. Does it make some sense to single this out, though, to make sure that banks would get CRA credit for this, even though they wouldn't generally be in the service category?

Mr. WIDES. Small community banks can get positive CRA consideration for financial literacy.

The CHAIRMAN. Can or cannot?

Mr. WIDES. "Can," on top of the requirements under the small bank test under CRA.

The CHAIRMAN. All right. But then there is an issue, and it may be somewhat an inter-bank regulatory issue. It has been suggested to me by people who know that some OCC examiners have said that banks should not get CRA credit for using the FDIC "Money Smart" materials because the banks neither prepared nor paid for those materials.

Do you know if there is any validity to that? Maybe the FDIC knows? Is there a question about whether or not banks that use "Money Smart" are fully given CRA credit by the OCC?

I was given a suggestion that there is some resistance on the part of some examiners.

Mr. WIDES. I am not aware of any OCC resistance in that regard. Banks can get CRA credit for their activities that benefit low- and moderate-income individuals and communities.

The CHAIRMAN. So I can take it that you said there may have been a problem in the past, where there has been some question about whether using the "Money Smart" would allow you to get CRA credit, but you make sure that is not a problem anymore?

Mr. WIDES. No. That shouldn't be a problem if it is done in conjunction with the low- and moderate-income benefit test under the CRA rules.

The CHAIRMAN. All right. I appreciate that and I would think that it is one of the things that could easily be cleared up.

The gentlewoman from Illinois?

Mrs. BIGGERT. Thank you, Mr. Chairman. I wanted to congratulate Mr. Martin for using football as a teachable moment to reach young people; and, I have to say that I have used www.practicalmoneyskills.com, and I actually have done that in a couple schools with Rex Grossman, who at the time was the most popular quarterback of the Bears, and done a competition between a couple of schools using that tool, and the kids just loved it. Of course, they loved Rex Grossman, so we had to let him win of course, but it was a really good opportunity.

Let me just ask a general question. Should we in Congress restructure FLEC to include the private sector? Or, do you think that the Treasury and all of the agencies are doing enough that we don't need to include them. I will start with the Treasurer, please.

Ms. CABRAL. Well, I think you hit on an important point. Something that I have learned in the 18 years that I have been in Washington is that anything that involves or allows or builds on collabo-

ration, I think, is much more successful. So to the extent that today we at least have a Financial Literacy Council that can work with the FLEC, we have a liaison between the two organizations.

I think we are in a stronger position to really improve government, nonprofit, private sector, as well as State and local government's efforts in terms of really putting forth solid, financial education and initiatives, and helping reach people at those teachable moments that you have described. I think that there are certain things we can do to improve the efficiency and effectiveness of the FLEC, but I think that the Council is going to go a long way in terms of just being able to liaise between the two entities and provide a constant dialogue between those various working parts so that we are much more effective in the future.

Mrs. BIGGERT. Chairman Johnson?

Ms. JOHNSON. Collaboration is certainly an advantage and getting the ideas from both the public and private sector together to compare notes and to move forward, I think, is very beneficial. Cutler Dawson, who serves on the President's Advisory Council on Financial Literacy, is the liaison to FLEC and he is the CEO of Navy Federal Credit Union. And so we have this tie-in of getting the best of both worlds in that regard.

We have encouraged credit unions to seek out the public sector as well, and in their partnerships and we as an agency have used some of those things and put the links on our Web site for some of the materials that we have. We look forward to continuing to do so.

Mrs. BIGGERT. Okay. Thank you.

Treasurer Martin, if you could just give a really brief answer, because I have another, really what I think is an important question, that I need to get to in time.

Mr. MARTIN. Thank you.

I agree completely. Adding a public-private partnership component would be very useful in the State of Arizona. We have no budget for financial education, so we could only do what we did with the private sector assisting. I would also recommend having a State connection as well, maybe State treasurer, State comptroller, State auditor as well.

Mrs. BIGGERT. Thank you.

Ms. Braunstein?

Ms. BRAUNSTEIN. Yes. We always encourage public/private partnerships and think that is very important; and, there are a number of ways to do that.

One of the things, just to keep in mind if you move in that direction, is that the larger that FLEC gets, the more challenging it is to coordinate among the participants. I mean, as it is, there are 20 agencies on there and sometimes I think that has been a challenge to coordinate among the 20 agencies. When you start adding other people, it becomes more challenging. There may be other ways to cooperate other than adding more and more people to the commission itself.

Mrs. BIGGERT. My time is getting short. I'm going to ask the other question, and that is, we see FLEC and all the ideas and programs within the Federal agencies, but also the private groups. Do you think we should test FLEC in putting together a national com-

prehensive director of all of the programs, because there are so many out there, and how to get everybody to know what they are.

Mr. Mooney?

Mr. MOONEY. Well, I think the "My Money" Web site does a good job of providing that kind of information, but I would support your suggestion here. Anything we can do to make financial literacy more available would be a good idea.

Mrs. BIGGERT. Ms. McConnell?

Ms. MCCONNELL. I think that there are three important components to promoting financial education: the public; the private; and the consumer; and, so any efforts that we can do to coordinate those three to get information out using those, the public, the private, and the consumer, can be advantaged to promote financial education.

Mrs. BIGGERT. Thank you.

Mr. Wides?

Mr. WIDES. I think a comprehensive directory would be a good initiative. I would be a bit concerned about the notion of a Federal endorsement of local initiatives and the notion of how to establish which of those are legitimate and good initiatives versus ones that are not. But, I think, as a general objective, it's a laudable objective to pursue.

Mrs. BIGGERT. Okay, thank you.

The CHAIRMAN. Ms. Waters?

Ms. WATERS. Thank you very much, Mr. Chairman, for holding this hearing.

Financial literacy—we have been thinking a lot about what has happened that has caused the subprime crisis that we are in and we are discovering, or maybe some of us already knew, that many of the foreclosures that we are experiencing are foreclosures where our citizens did not understand what they were signing. They didn't understand the contract that they signed and they got involved with these adjustable rate mortgages that they didn't know were going to reset. They didn't really understand what they were getting involved in, and so I'm wondering what can really be done with financial literacy in general and mortgages in particular.

Is there anyone on the panel who has been involved with helping to start bank accounts for seniors, for example, and then following through with the seniors on an ongoing basis about how they add to those accounts; teaching them how interest accrues on those accounts? Do you know of any organizations that has done that kind of thing?

Ms. JOHNSON. Congresswoman, I know that there are a number of credit unions that have set up age-specific classes all the way from the young to include the seniors.

Ms. WATERS. No, specifically bank accounts or credit accounts, credit union accounts; because I have a feeling that it is one thing to teach people in a vacuum, but it is another thing to teach people who are dealing with real live issues, money, banking accounts, how to write a check, that kind of thing. Is anybody doing that?

Mr. MOONEY. The FDIC's Alliance for Economic Inclusion, now in 10 cities nationwide, does bring banks and nonprofits together to actually open accounts.

Ms. WATERS. What about high school seniors?

Mr. MOONEY. We just released our "Money Smart for Young Adults" program. High schools around the country were looking for a free financial education program that teachers could use. It is geared for high school and college students, and anyone else between the ages of 12 to 20.

Ms. WATERS. Okay. I would like to see exactly what is being done. I am only interested in programs where students actually open up checking accounts or bank accounts. I am not interested in the literature kind of in a vacuum.

The other thing is, do you know of any programs that have set up second opinions on mortgages? For example, a homeowner buying a house may be involved in some kind of counseling program, but before they sign off, they have an opportunity to get a second opinion from qualified folks who could review the mortgage document. Is anybody doing that?

Mr. MOONEY. I don't know of anybody, offhand. We could look into it and get back to you.

Ms. WATERS. Well, the reason I ask these questions is because I have always had the feeling that it is very difficult to counsel and teach in a vacuum and that things don't really happen that way. That the real interaction that takes place is that which actually not only informs but equips our citizens to be able to manage money, to have the mortgage accounts, etc.

And so as I look at what we are doing here to try and help with these foreclosures, I am interested in the kind of programs that will actually not just teach people in a vacuum, but be involved at the point that people are getting into these contracts.

Yes, ma'am?

Ms. JOHNSON. Yes, Congresswoman, we do have a number of credit unions that have actually set up student branches in the schools where the students are actually the tellers and I have visited both the local elementary school, which is close to our agency, and then Woodbridge High School in Virginia. And I have watched the students actually run the operation; of course, with guidance from credit union personnel who are with them.

There are incentives for the students to open accounts, and then at least one day a week, sometimes more, there is a certain time set aside within the school day that the students come and make their deposits and get started on a savings program.

Ms. WATERS. All right. I would like to ask one more question before my time is up, and that is this: As we think about working with our homeowners who are about to experience foreclosure or have experienced foreclosure, what do you think about credit unions and community banks having a separate operation to do workouts and modifications interacting with the servicers who had the responsibility for the foreclosures.

Don't you think that credit union personnel and our community bankers are better able to negotiate with these loan servicers than anybody else?

Mr. MOONEY. Yes. Congresswoman, the FDIC is about to sponsor several one-day forums where we are bringing community bankers and credit unions together with servicers and counselors. We will provide them with information and work with them to see how

servicers might possibly step in and refinance some of these mortgages.

We will be doing one in Los Angeles, one in Nevada, and probably one in Ohio.

Ms. WATERS. Not just for refinancing, but there should be a revenue stream for them doing this work. Small banks need that. I would like to see you on that and see what you are doing.

Mr. MOONEY. Yes.

Ms. WATERS. Thank you.

The CHAIRMAN. Ms. Braunstein.

Ms. BRAUNSTEIN. I just wanted to say that we have been working through the reserve banks on a number of these issues. The Federal Reserve Bank of Boston has coordinated a number of banks up there that are working on loan modifications and they are mostly small community banks.

We also, on your other question, we have initiatives going on in the reserve banks on the ground getting people accounts. There is an initiative in Atlanta, for instance, called "Get Checking," where they actually try to take people who are unbanked and start relationships with financial institutions for them.

The CHAIRMAN. Thank you.

The gentlewoman from West Virginia.

Mrs. CAPITO. Thank you, Mr. Chairman.

I would like to thank the panel. I have a couple of questions really for whomever wants to jump in. In part of the briefing materials that we were provided, really a stark statistic is that the U.S. savings rate has hovered at or below one percent of disposable income; whereas, just in the 1980's and 1990's, it was between 7 and 8 percent.

You know, trying to tie this to financial literacy, is there a tie between financial literacy and the willingness or the ability to save? And what are we doing to try to boost the savings rate?

Mr. MOONEY. Congresswoman, when we conducted an effectiveness survey of the "Money Smart" program, we found that when individuals went through the course, 7 out of 10 saved more, and 43 percent who didn't have a savings or checking account opened one. It is very clear that type of financial education can work. We have also coupled that with financial inclusion activities such as our Alliance for Economic Inclusion.

Banks can and do offer financial education as a means to encourage those who have been underserved to open savings and checking accounts.

Mr. MARTIN. As experienced in the classroom, what I found is that today we have the availability in ease of credit to an extent you haven't had to the degree 20 years ago, and so what has happened is 20 years ago, if you were worried about having a flat tire or your refrigerator dying, you needed to have a savings account to cover that. People just say, I'll throw it on my credit card and worry about it later, and so a lot of that has to do with just the easy access to credit, which is in itself not necessarily a bad thing. It is when you only have that as your backstop and you have nothing else.

Ms. CABRAL. Just to mention a couple of programs that I think have been particularly successful, and one of them is, of course, the

American Savings Education Council, launched with Treasury in April of 2007 a PSA campaign that was basically about choosing the same; and, I think that is critically important.

The American Banker's Association hosts a series of workshops across the country with young children; because, I think the point is that we have to start younger. We certainly have to do a good job of educating and providing financial literacy and education tailored to every segment of society, because it is just as important to the elderly individual as it is to a young individual taking their job for the first time.

But teaching children to save is particularly important, and so I think that has been a wonderful campaign that has made a difference, and I think everyone on this panel probably has participated in that campaign.

Mrs. CAPITO. Well, I know in my State of West Virginia, we have a bank at school program. I think it's aimed at between fourth and fifth grade and I think it's been very successful.

The other question I had requiring free credit reporting, access to free credit reports, has this been embraced? I mean, is it shown that now that you have this available, how many more people are actually getting their credit reports? Is it making people more aware? Is it leading to more financial literacy?

What are the results of this free credit reporting requirement? Anybody? Yes?

Mr. MARTIN. In my experience it has been great. It is probably the best thing that has come from Congress in this area that has actually been useful in the classroom. Just getting individuals to understand the real responsibility with credit and the implications of their own actions and the fact that waiting 30 days, because, you know, I just didn't feel like making my credit card payment, has long-term ramifications as to whether or not you can qualify for a house.

Because what it has allowed us to do is make it personal as opposed to abstractly talking, we can say this is how this works, and you can pull up your own credit report and see how this applies. It really makes the teaching very personal and constructive right to their own situation.

Mrs. CAPITO. Thank you.

Oh, yes ma'am?

Ms. CABRAL. Well, just the last. The other thing that we were tasked with, FLEC itself, was to create a multi-media campaign. And the campaign, the emphasis of the campaign that we have been working on is about credit and managing credit wisely. That should be released and launched this August, as well. And, hopefully, it will contain television, radio, and various types of ads to reach people in as many ways as possible.

Mrs. CAPITO. All right. Thank you. I yield back.

Ms. WATERS. [presiding] Thank you very much. Mr. Mel Watt, for 5 minutes.

Mr. WATT. Madam Chairwoman, I think I will yield my time to Mr. Hinojosa who is the primary sponsor of this initiative and just express my support for financial literacy and thank the panel for being here.

Ms. WATERS. Thank you very much.

Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Congresswoman Waters. I appreciate that very much. I believe that the first question that I wish to ask would be directed to the Honorable Anna Escobedo Cabral, as well as to the Honorable JoAnn Johnson, and to Robert Mooney from the FDIC.

The FACT Act required that FLEC establish a Web site, establish a 1–800 number, and provide information in both English and Spanish, which I requested with the help of Chairman Frank. FLEC was also tasked with developing a multi-media financial literacy campaign. Yet, I find that FLEC has had 4 years to develop this campaign but has not done so.

Why has it taken FLEC so long to produce a public service, multi-media campaign as authorized in the law, and why did FLEC inform my staff that they did not need the $2 million for a financial literacy campaign, as authorized in the FACT Act? I think that the information that I get from my staff is that it cost half-a-million dollars just to print the National Strategy on Financial Literacy and the remaining cash on hand is to be used for the campaign.

So please tell me why—because I am upset that it has taken so long—that we find ourselves in the crisis that we are in.

Treasurer Cabral?

Ms. CABRAL. Yes, Congressman Hinojosa, thank you.

We have worked hard to make sure that the multi-media campaign is one that will be very effective and it has taken longer than we had hoped. We have gone through the research stages, several focus groups, and now we are in production. We do expect it to be available this August to be launched and we do think that it will be something you will be proud of when it is launched.

We were able to set aside $750,000 to dedicate to this project from funding that we already had on-hand, and that is what we have been using to move it forward. We do believe that it will make a tremendous difference in terms of reaching individuals and helping them to understand the importance of managing credit well. And we hope that you will have a chance to look at it soon.

If you'd like, we would be happy to bring some of the developed materials by for your staff and yourself to look through for your comments.

Mr. HINOJOSA. JoAnn?

Ms. JOHNSON. Thank you.

I'll limit my comments more to the "MyMoney.gov" Web site, because that is the subcommittee that I was appointed to about a year-and-a-half ago, so that is a little bit more in my area. I am not quite as familiar with the appropriations or the funding area. It has been a lot of hard work.

I think for me, personally, the most difficult thing is getting people together. We meet quarterly for our FLEC committee as a whole; and, then, in the off-time, we meet by conference call primarily, but bringing ideas to the table, sorting through them, determining which ones we continue to pursue, I would admit it's just like the rest of government, I guess. It takes longer than what anyone anticipates or hopes for a project to be completed.

I am pleased with the quality of the Web site and how we have monitored it and tried to come up with something that we can vali-

date the information. I know one of the big questions was, where do we draw the line; what information comes on; how can we check it out; how do we validate; and so making those decisions, is it government only? Do you allow the private sector? Do you allow those who are companies for-profit? Because we have to determine that the information is accurate.

So there was certainly more involved on the surface, but I think we do have a good project. For me, the most disappointing thing is that a public service announcement is not enough for people to even become aware of the Web site in order to use it.

You don't have to reinvent the wheel. There are good materials there. We just need to get them in the hands of the user, and that's the most difficult thing. That's why I think it takes all of us working together to actually deliver it and get where the rubber meets the road.

Mr. HINOJOSA. Mr. Mooney.

Mr. MOONEY. Congressman, I defer to the Treasurer and her remarks concerning the media campaign. I will add to Chairman Johnson's remarks that the "MyMoney" Web site is really quite good. We chair, the FDIC chairs, the hotline subcommittee and several agencies are including information that is sent out to consumers who call for it.

It is difficult, as Ms. Braunstein said, to organize 20 different Federal agencies. Nevertheless, anything can be improved, any additional resources, I think, could be welcome, and perhaps we could coordinate something that would be more in line with what you would expect.

Mr. HINOJOSA. Well, I am very disappointed, because I come from the world of business. And every time we had a marketing plan, we expected to have returns and to monitor the results of the marketing plan. And after 4 years, the results are horrible. We are in a crisis.

We believe that we are in a recession, even though some people would debate that statement. I believe, Mr. Mooney, that your group through the FDIC were working on that survey that you talked about with the students. When will you release the results of that national survey of banks' efforts to serve the unbanked adults?

Mr. MOONEY. Actually, we just mailed the survey out to banks yesterday. We will be reporting on a biennial basis to this committee, as well as to the Senate Banking Committee, under the Federal Deposit Insurance Reform and Conforming Amendments Act of 2005.

We would be delighted as we get results to share those with your staff. We think through this survey, we will find a great deal of information about what banks are doing, as well as through our household survey with the U.S. Census, and find out why individuals either are or are not working with banks. We hope to get a great deal of detailed information on that. We would expect by the end of the year or after the first of the year we will have analyzed the results of the first survey.

Mr. HINOJOSA. If you say that you have just mailed it to the banks, what is a preview of that survey with regard to the many people who are limited English-speaking adults and in many cases

don't trust banks because of experiences that they had in their motherlands?

What is being done to address that concern?

Mr. MOONEY. Well, at the FDIC, we formed Alliances for Economic Inclusion in 10 cities. We have one in South Texas, a very successful, active one. Banks, nonprofits, and others have come together to address issues such as that. They are coming up with new products and new marketing materials in a way that can reach individuals who do not have English as a first language.

Our financial education program, "Money Smart," is available in seven different languages, including Braille. The group in Texas, largely thanks to your leadership, Congressman, regarding financial literacy, has been quite successful in reaching into the Latino community there, and in finding ways that new citizens and others might feel more comfortable working with banks.

Mr. HINOJOSA. I thank those of you who have helped us take financial literacy programs to the elementary schools and to the high schools. We have taken them to the community college at South Texas Community College and the last one was at the University of Texas, Pan American, which was very successful. But still, as a former businessman, I am very discouraged that the results that we have to show when we see the economy going into the tank, the results are just absolutely horrible.

To the Treasurer, you spoke about the difficulty in working with such a large group, and Congresswoman Biggert and I talked about the need for the public and private sectors to work together: Do you all think that this group is just too big and unmanageable? Should it be made smaller so that it can move faster and get things done as we had expected when we passed this law?

Ms. CABRAL. Well, I think that all the voices on the FLEC commission are important and I think that some of the difficulty, perhaps, is just knowing how to get started. I was not part of the Administration when FLEC was created, but I think they have done a phenomenal job of really just beginning the conversation and setting out for themselves a shared set of goals and some plans of action.

I think we have moved far enough along that you now can bring, I think, FLEC and the council that was recently created by the President, the Financial Literacy Council, together to really help one another. I think it was Ms. Braunstein who suggested that it might be too difficult to enlarge FLEC to then add additional outside entities, that is the private sector, State, and local government.

But it is important to have that conversation among all of those players for us to be successful, so I think to the extent that we can liaise between the two organizations and continue the dialogue, I think we are all going to be much better off.

Mr. HINOJOSA. Please do not misunderstand me.

I don't want to expand it. I want it to move. I want it to be an expedited effort for the implementation, because as we say, we are right on the brink of falling into the canyon, and, if you all don't find a way and recommend to Congress to expedite this, I think we are in for a deep recession if we don't find a way to correct this.

I yield back.

Ms. WATERS. Thank you very much.

Mr. Clay, for 5 minutes.

Mr. CLAY. Thank you, Madam Chairwoman, especially for holding this hearing today. And this question is for anyone on the panel who would like to address it.

We all know that one of the contributing factors of the housing foreclosure crisis that we are currently in is inadequate financial literacy. We have had many programs created in the past few years to address this issue and have had some positive results, but not nearly the impact that was needed.

We also know that housing and credit cards are not the only areas that need to be addressed today. How early do we need to start these financial literacy programs to get ahead of this lurking monster called debt?

We see kids in high school with credit card debt and know that we have to start before that. What are the earliest ages that we can start teaching our children in schools and other formal settings about financial literacy, and at what ages does your research show that they are capable of understanding and retaining this knowledge? Anybody can take a stab at it.

Yes, Ms. Johnson?

Ms. JOHNSON. Sir, I have participated in financial reading classes at the 2nd and 3rd grade level that have gotten these kids started towards a savings account, especially when the credit union follows through then and has a student branch within the school.

So the second and third grade level is certainly not too early to begin, and I agree with you that the sooner we get to them, the better.

Mr. MOONEY. Congressman, I would add, yesterday I was at the Hope Charter School and we talked a little bit about financial education with a classroom of 8- and 9-year-old students. They understood the importance of savings. Many of them had savings accounts and they were telling us why they had savings accounts. One wanted to go to college, one wanted to buy a BMW, one wanted to buy a laptop computer. But, the point is, they were saving for that, so it was very encouraging.

We also think junior high, high school, is a perfect opportunity to do that. That's why we just released the "Money Smart for Young Adults" program.

Mr. CLAY. Thank you for that.

Anyone else?

Yes, sir, Mr. Martin.

Mr. MARTIN. Thank you, Congressman.

I think at any age you integrate it with the existing curriculum. I have been in kindergarten classes where they were teaching them how to count using money, fake bills, and the concept of how much money do I have left, and how do I know after I bought something what's left. And she was teaching them how to count by also teaching them the value of money at the same time.

I don't think you can start too early, but you can't ever finish. It doesn't end when they graduate from high school or college. They're going to need it again, because this is something that if you don't use it on a regular basis, you lose it. And, frankly, not that

many people buy houses every day, and so they need refresher courses.

Mr. CLAY. So we need to get them into the habit at an early age, and the earlier the better.

Mr. MARTIN. Yes.

Mr. CLAY. Let me ask the entire panel again: The retirement of baby boomers is beginning to happen and many of them are inadequately prepared to financially handle retirement. Over the next few years, millions will retire and many of them have no idea of their total financial needs.

How do we address this literacy shortage in the short term? In your experiences, are the adult literacy programs reaching those who are near retirement? Are they responding and seeking literacy about their immediate future? Are the numbers of programs that we have enough to reach the number of people who need this knowledge?

Yes, ma'am?

Ms. BRAUNSTEIN. I know that we are always very concerned about that at the Federal Reserve, and one of the things that we do is offer a number of programs in the workplace to our employees on a number of specific issues, one of them being retirement.

And one of the challenges with financial education, especially with adults, is that people are very busy and it's hard to get people to find the free time to attend classes, which is why if you can capture them in places like the workplace where they are, you have a much better chance of reaching them with information on this.

Mr. CLAY. Yes, sir?

Mr. MOONEY. Yesterday, we, the FDIC, signed a "Money Smart" partnership agreement with USOPM. They have 1,800 benefit specialists who service two million Federal employees worldwide. We will be training those counselors in how to train using financial education and work better to utilize their benefits including retirement benefits.

Mr. CLAY. Thank you, Madam Chairwoman. Thank you for your indulgence.

Ms. WATERS. You are certainly welcome.

Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman. Thank you, Mr. Hinojosa.

Our children's generation will be remembered by historians as the most indebted generation in the history of our planet, and they have been trained poorly because their parents and grandparents created a crisis by dealing with brokers they did not know, buying homes they could not afford, and signing contracts they did not understand.

And so I applaud all of the efforts that are underway for financial literacy, but my concern is that no football coach would wait until the National Anthem to develop the game plan. No person would wait until a tooth is rotting before they visited a dentist. No nation would enter a war without first counting the troops. Well, that's a bad example.

[Laughter]

Mr. CLEAVER. No long distance driver would wait until the middle of the trip to map out the route, and so what we are doing, even

though I congratulate you and think it is good, is that we are waiting until the horse is out of the barn to do this.

What I am wondering about is whether or not those of you here would support something that's a lot more specific, and by that I mean if we entered into a tri-party agreement, the GSEs, the financial services industry, and the Federal Government, and we picked 110 districts around the country, 2 in each of the States and the territories, and we create a pot of money for a 4-year program in each of those schools as a pilot with a goal of moving toward establishing a curriculum in high schools for all high schools around the country on financial literacy, where people can't even write a check.

And so I think when we just say, well, you know, we have all these programs and we want you to take advantage of them, that may be good, and it's the best thing that we can do at this time. But I believe we ought to build it into the very fabric of education in this country so that everyone gets that exposure.

What's wrong with that? Or your signals are that you all support it and I hope the press gets it down? Is everybody supportive of what I just said?

Ms. JOHNSON. Sir?

Mr. CLEAVER. Ms. Johnson.

Ms. JOHNSON. I think having financial education in the schools is certainly a great goal. I think there are eight States that now have some sort of curriculum, but we need to go beyond that. I know the institutions, the banks and the credit unions that are in those eight States, also see the need to reach beyond the school system we have at all age levels. So getting the school age is certainly a good thing, but we don't want to drop the other programs that are beyond that.

Mr. CLEAVER. Yes, I am not suggesting that we drop that. I hate Shakespeare. I hated it when I was in high school, but I can quote some Shakespeare just from being in the classroom. I didn't like Miss Holland who taught us and forced us to read that stuff, but I can quote Shakespeare sitting here right now, just because I was in the classroom. I'm not saying we eliminate all of that. I'm saying that we build it into the system that educates our children. We are doing a shotgun approach; some will be exposed and some won't.

Why not make it a part of the curriculum in schools all around this country and its territories? We have a crisis. It's not going to get better.

Mr. MOONEY. Congressman, some school systems have, and we have found that teachers on their own have downloaded financial education programs, and worked them into their classes. So there's obviously a demand for this.

Mr. CLEAVER. Ye, and I am happy. Thank you. Sometimes I am inarticulate.

What's wrong with trying to have that as a part of the curriculum in all of the school systems in the United States?

Mr. MARTIN. I think that's a great idea. I think it needs to be integrated. The biggest problem I found, and we are actually having a conference in Arizona, the local coalition, half the course of the conference, is teaching personal finance to teachers.

They never got this when they were going to school, and so they don't feel comfortable teaching it yet. And so I don't think you could make this as successful unless you also gave additional training to the teachers to make sure they understood the subject too, because they don't feel confident in many cases about that.

Ms. CABRAL. Congressman, to that end, I think FLEC and certainly the Department of the Treasury have been working hard to make sure we identify resources that make that possible for teachers in school districts that are interested. So not only are there curriculum that are readily available, but I think Mr. Martin's point is a really important one.

You have to make sure the teacher is in a position to also teach these topics, and many times, they are uncomfortable. So we have identified, for example, the nominal programs that exist currently in some States where they teach teachers over the course of the summer and prepare them so that they could administrate these classes as the fall semester arises. So a lot of the work is going on now and I think it will continue to move forward.

Ms. WATERS. Your time has expired.

Ms. Maloney, for 5 minutes.

Mrs. MALONEY. I thank the gentlewoman for yielding, and I applaud my colleagues for their interest in supporting financial literacy. I, for one, join my colleague in calling for having it be part of the national curriculum that we have in our schools and with the increased complexity and the number of financial products, the need to save as a country, we need greater financial literacy.

I would first like to ask the Treasury Department, the Honorable Anna Escobedo Cabral, about—and I really first want to congratulate all of you for your efforts to increase financial literacy, and I know Treasury has some new programs.

In January, I sent Treasury a letter about a constituent, the W!SE program, Working in Support of Education. W!SE has developed a curriculum and test that has a strong track record of success, and my concern with Treasury's new proposal is that it's just a test, as I understand it, without the backup curriculum, and would ultimately possibly undermine the efforts of programs like W!SE that have a strong curriculum. What are you doing to ensure that financial education programs like W!SE continue and are not undermined by a test-only approach?

Ms. CABRAL. Thank you, Congresswoman. W!SE is actually a phenomenally successful program, one that I certainly admire and respect personally. I have had the privilege of attending some of their certificate programs in New York City and I really do value their input. I think they are an incredibly important partner in this process.

What has occurred is that Treasury, at the request of the President, came up with a series of ideas that were submitted to and approved by the President's Advisory Council on Financial Literacy, one of them being this concept or model of making a test available that would determine what you need to know to graduate from high school and demonstrate that you truly are financially literate.

And the model is really something along the lines of what we've seen was very successful in the area of physical fitness, creating

some sort of Presidential award, some recognition so that individuals who tested and demonstrated their capacity and their ability to really know the subject matter would be recognized for those efforts, to try and encourage more teachers across the school districts in the United States to make curriculum available and then to test and recognize excellence.

W!SE is one of those programs that offers a particularly important component to that, and that is that they do have curriculum that makes a world of difference. There are a number of partners who have come together to give some advice to the Treasury Department about what would best serve or how we might best understand what a financially literate individual would have to prove. And that is in fact what we have done.

We hired four economists who were outside of the government to come up with a test that we could use for this model. We have tested the test itself. We piloted the test, and it seems to be moving in the right direction. We hope to be able to launch this initiative in the next couple of weeks, and we hope that W!SE will continue to work with us to be a partner in terms of being able to administer curriculum that is critical to preparing students to pass those tests.

Mrs. MALONEY. I know that a number of financial institutions—I received a letter from Chase Manhattan, J.P. Morgan, Citibank, others—have financial literacy courses. They go into the schools. I know that Mrs. Siebert has come up with a curriculum that is in the New York City school system, yet we're seeing that it's not working. And I just want to cite that just last week the Jump$tart coalition released the findings of its most recent survey of high school students for the first time, and for the first time, college students and high school seniors today have less financial literacy than their counterparts 2 years ago.

So all of this effort appears not to be working. The mean scores for the 2008 high school senior class was 48 percent, lower than for their 2006 peers, who answered 52 percent of the questions correctly. And scores for college students are higher at 62 percent, but still, 62 percent for financial literacy for college students is very, very low.

Some have argued that if we had better literacy, possibly we would not have had this financial crisis that we are confronting with the subprime if there was a greater understanding of the products that people were buying into. I would just like to ask all the panelists and just go right down the line, do you think that financial literacy should be required curriculum in our high schools now?

Ms. CABRAL. I think that there are a number of States who have made a commitment to it, and it is a State-by-State decision at this point, and I respect the right of States to determine what their curriculum will look like.

I think it's incredibly important for us to make sure that we start teaching children about financial literacy from the time that they enter kindergarten all the way through high school. And the goal of the test that I just described a few minutes ago is really to add to a curriculum that teachers would offer and then also guarantee

that students had actually learned and that the behaviors had changed.

Ms. JOHNSON. I would echo what the Treasurer has just said. And certainly those students who received the financial education classes and the exposure at an early age seem to do better. We need to change the mindset, particularly of these high school students and those heading off to college and the use of the credit card. No one would have thought 20 years ago about going to the bank to borrow money to get a Starbuck's coffee. That is the ease of the credit card and the dangers therein today, so I think the earlier the better.

Mr. MARTIN. I also agree. I think it should be integrated, though, in the curriculum. Having a single, stand-alone class is not the same as having this integrated as part—we still need to learn how to count and do math and do history. It should be incorporated all the way throughout.

I think you have a lot greater retention when people understand, because finance and economics has a lot of social implications as well. And I think if you tie those two together, you will have a lot greater retention by the students than you would with just one stand-alone class that they may or may not remember later in life.

Ms. BRAUNSTEIN. I agree that I think it would be a very worthwhile endeavor, and I also agree with Mr. Martin's remarks that I think that we find with students, as we do with children, as with adults, that they learn more if it's somehow put in context that they can understand. So if there's a way to tie it to other kinds of lessons or find teachable moments for kids, it would be much more effective.

Mr. MOONEY. Congresswoman, we have talked with teachers who on their own have tried to provide financial education, and they have gone to our Web site. They don't have the resources to even download the free program, so they have asked us to mail it to them. Chairman Bair has long been an advocate of incorporating financial education into schools, and we think it would be an excellent idea to work toward that end.

Ms. MCCONNELL. I think there are benefits to incorporating financial education into the schools, and I also think that we could yield additional benefits by finding ways to bring to scale the best practice programs so that we can have more benefits on a wider scale instead of school by school.

Mr. WIDES. We would agree with the Treasurer's remarks as well that integrating it into the curriculum is very important, but I also would point out there are a number of initiatives where financial institutions are working to bring hands-on exercises into the schools. At the Financial Literacy and Education Commission, we heard about the investment challenge, which brings in learning about the stock market. We talked earlier today about banks actually opening up branches in schools that are run by the students themselves. And I think we would also want to augment any activities like that with work to build this into the curriculum.

Mrs. MALONEY. Thank you.

Ms. WATERS. Thank you very much. The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing

record will remain open for 90 days for members to submit written questions to these witnesses and to place their responses in the record.

This panel is dismissed, and thank you very much for being here today.

I would like to call up our second panel. Members of the second panel, please quickly take your seats at the table. We have a certain time that we have to be out of this room. Would you please clear both aisles and take your conversations outside of the room and let's get our panelists seated at the table.

Thank you very much. I'm going to start by asking Congresswoman Maloney to please introduce one of our panelists from her area.

Mrs. MALONEY. I thank you, Madam Chairwoman, and I congratulate all of the panelists, and I have the great honor of having two panelists from the district that I represent, which is very interested in financial literacy.

I would like to welcome Robert Duvall, president and CEO of the National Council on Economic Education, and also Phyllis Frankfort, whose program I have worked with over the years. She is the CEO and president of Working in Support of Education, or W!SE. W!SE is a nonprofit located in my district that has developed and operated a financial literacy certification program, and they started their program in New York City, but it has now expanded to 18 States for the 2008 academic year. I want to thank her for her work in this area, and Mr. Duvall, and for the honor of representing you. Thank you for being here today.

Ms. WATERS. Thank you very much. Mr. Moore, I understand you have someone you would like to introduce today?

Mr. MOORE. I do. Thank you, Madam Chairwoman. Jill Docking, a friend of mine, is by profession a stockbroker from Wichita, Kansas. She co-founded, or excuse me, she's a member of the Kansas Board of Regents appointed by Governor Sebelius in 2007, and most importantly this morning for the purposes of this hearing, she co-founded the Financial Fitness Foundation, a not-for-profit organization dedicated to teaching youth to make responsible financial choices for their future.

So, I appreciate her being here and I thank you for the opportunity to introduced my friend.

Ms. WATERS. Thank you very much. I will now introduce the other members of the panel: Mr. Marc Morial, president and chief executive officer of the National Urban League, and former mayor of the City of New Orleans; Mr. Stephen Brobeck, executive director, Consumer Federation of America; Ms. Janis Bowdler, associate director for wealth building policy project for the National Council of La Raza; and Mr. Dallas Salisbury, president, American Savings Education Council, and chief executive officer, the Employee Benefit Research Institute.

Thank you all for being here. Without objection, your written statements will be made a part of the record. You will each be recognized for a 5-minute summary of your testimony. I will start then with Mr. Robert Duvall.

**STATEMENT OF ROBERT DUVALL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL COUNCIL ON ECONOMIC EDUCATION**

Mr. DUVALL. Thank you, Congresswoman Waters, for this opportunity. It is really good to be here and to be working with one of my heroes, Congressman Hinojosa, who has been a great champion of this cause, and my own Representative, Congresswoman Maloney, who introduced me. Thank you very much.

Thank you for inviting me to testify on the timely, critical, and vital issue of the Federal Government's role in empowering all Americans to make informed financial decisions. I think it's especially fitting, as has been observed, for this committee to be holding this hearing during Financial Literacy Month. And as a member of the newly formed President's Advisory Council on Financial Literacy, and as a parent, an educator, and as a concerned citizen, I commend you for focusing on this very important issue. There are few matters which more directly address the traditional American values and virtues of self-reliance, individual responsibility, and good citizenship than the issue we are talking about today.

My organization, the National Council on Economic Education (NCEE), is a champion of financial literacy and a leader in the field. Our focus is on professional development for teachers. And I want to second several comments that have been made, particularly by Congressman Cleaver, in regard to the importance of getting this literacy into the core curriculum in the schools. We so often are spending our time and our resources on remedial action, as in some ways we're trying to do now with the situation, Congressman Hinojosa, that you pointed out for this country. But we can prevent some of that need for remedial action if we educate our young people more consistently and clearly and fully in the skills that they need to make good decisions.

We at the National Council on Economic Education believe that all of our young people need to know and deserve to know about the economic system they will be working in and contributing to and benefitting from and ultimately inheriting. Since our founding 60 years ago, we have learned that the basics of financial literacy taught early, often, and well are a key to our Nation's continued success and to being competitive in the global economy.

Our charge is to ensure that all of our young people are empowered with an economic way of thinking that will help them make good decisions about managing their resources as members of families and communities, in the workforce, and as citizens.

Too often, we think that economics is what they do at MIT, not what you do when you're making day-to-day decisions about the management of resources in your life, and the need for educating all of our young people early is great. The NCEE is committed to contributing to solutions for this problem today and for the day after tomorrow. We are differentiated by our mission. We believe that financial literacy best comes through effective economic education, that this education ought to be a part of the core learning experience that our young people get while they are in elementary and high school.

What do we know? We know that financial decisionmaking skills are learned behavior. You're not born with it. And we know that

it's best learned while you are in school, before you get into the school of hard knocks. And it's best learned through well-prepared teachers, including parents as teachers, but the school system offers us a structural arrangement for conveying this kind of learning experience and making it stick.

Financial circumstances in the lives of all of us keep changing. The basic principles of economics—cost benefit, opportunity costs, supply and demand—do not. We want to teach all of our young people a skill set that includes these tools to get into their heads and hands the ability to frame decisions that they have to make about financial services, about buying their first home, about managing credit and debt, about using financial institutions, to be able to make decisions about these things in a framework that has prepared them well to do it.

[The prepared statement of Dr. Duvall can be found on page 103 of the appendix.]

Ms. WATERS. Thank you very much.

Mr. Mark Morial.

**STATEMENT OF MARC H. MORIAL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL URBAN LEAGUE**

Mr. MORIAL. First of all, good afternoon. Congresswoman Waters, thank you very much, and I want to thank the members of the committee for holding this hearing and for this very special opportunity to summarize my written testimony this afternoon.

First, on behalf of the National Urban League, I want to share with you some startling but compelling information about African Americans and the American economic system. According to this year's State of Black America Report, the standing of African Americans economically is but 57 percent that of white Americans. Further, African Americans hold 5 times more installment debt on average than do white Americans. And African-American net worth averages about $11,800 versus $118,000 for white Americans. This set of economic disparities is exacerbated and has been exacerbated by the subprime meltdown that has shattered and shocked this Nation.

Indeed, I also want to share with you that the National Urban League has been involved in financial education and financial literacy now for almost 40 years. And it is an essential component of our economic empowerment agenda, that is an agenda to close the economic gaps that exist in this Nation. Last year, we served some 25,000 people from coast to coast with financial literacy and financial education training. We do this work in 75 of our affiliate cities, 75 of the 100 affiliate cities in our network. Indeed, these financial literacy and financial education services include workshops, one-on-one counseling, case management, and a sophisticated asset-based approach to financial education, the idea that financial education should not only provide people with tools but with the objective of learning how to save, how to invest, and how to purchase homes. Of the 75 affiliates, 66 of them do homeownership education and counseling and that includes, Congresswoman Waters, homeownership education on the front side, to assist people before they even sign a mortgage and purchase a home, and post-purchase counseling, which involves assisting people who may get behind, may

get into default with negotiating with the mortgage holder in an effort to try to protect or save that asset.

Today, I want to offer, one, some thoughts about the advantage of the National Urban League in providing these services. One, we are a trusted ally in the community. There is no mistake that the National Urban League is not a debt collector, not the bank, not seeking to foreclose on people's homes but there to assist them. Number two, because of our trust people tend to come to us for assistance and help earlier rather than later.

Here are some recommendations, and I agree with what Mr. Duvall has said and with what many of the earlier panelists said. First, I believe that Congress should lead the effort to dramatically expand financial education in this Nation, with both public and private resources with a focus on asset building, that is to help people save, invest, and buy homes. The question then is how do you examine, how do you evaluate, how do you measure the success of financial education? We should keep our focus on the bottom line and that bottom line is whether people's net worth expands and increases over time.

Number two, as has already been said, we should focus on financial education for young people, for kids in schools, for preteens and for teens, ruling people in effective financial decisionmaking is very important in a context in an America today where the range of services, the range of options, the complexity of options, from the choices for cellphones, for investments, and for retirement accounts is far more complex than it was a generation ago.

And, finally, pertinent to the subprime crisis, homeownership counseling should be dramatically expanded, and I applaud the committee, your leadership, Congresswoman Waters, and yours, Congressman Watt, in pushing the Congress to do this. With this important caveat, those dollars must be geographically focused on those areas in those communities that have greatest need.

Number two, the expansion of investment in homeownership counseling and financial education should not be a license for the creation of fly-by-night homeownership counseling agencies that sprout up because they see an opportunity. Indeed, fly-by-night mortgage brokers have been in fact one of the causes of the subprime meltdown.

So, finally, I just want to thank you all for considering this as well as for the opportunity to testify today.

[The prepared statement of Mr. Morial can be found on page 189 of the appendix.]

Ms. WATERS. Thank you, sir.

Ms. Jill Docking?

**STATEMENT OF JILL DOCKING, PRESIDENT AND FOUNDER, FINANCIAL FITNESS FOUNDATION**

Ms. DOCKING. May I assume everybody has my testimony, and I may summarize it?

Ms. WATERS. Yes, you may certainly assume that.

Ms. DOCKING. This has all been quite interesting to me. I have been working on this issue for 10 years now, and by the way, I'm encouraged to hear everybody here is interested, and I thank all of

you for clearly staying through either your lunch hour or nap hour or whatever this is for everybody, you all have really hung in there.

Financial Fitness Foundation was a not-for-profit formed about 10 years ago in the State of Kansas in an effort to promote financial literacy. We started off by doing very interactive, high-energy seminars for young people in high schools, and we really could gin those kids up. They were fabulous, they were expensive to do, everybody was very engaged, especially kids from large urban districts. The board then concluded while that really caused a lot of excitement amongst the kids, it was not very efficient at spreading our message extensively. So as a little guerrilla group, as I call our little foundation, just a bunch of private citizens wanting to get this done in the State of Kansas. With the help of our executive director Carol Rupe, we launched an effort to change the law in the State of Kansas and we did so. Now it is mandatory in our K through 12th curriculum that we have financial literacy standards integrated into our standard curriculum of math, social studies, and language arts. So it is all the way through our curriculum.

We now are trying to evaluate how well we are doing and how effective that has been and our conclusion is that it is spotty, that a lot of teachers do not really feel comfortable about teaching it and so they are therefore either not teaching it or not doing a very extensive job at doing so. So when I was asked to do this presentation, I differ from everybody here, I don't run an organization. I am a businesswoman, I really care about this, and I agree it has to be part of the system in either a very incentive-based way or mandatory. In a sense, you have to set a FLIC under FLEC. We did that in Kansas. We tried to get all of the wonderful people doing everything to get a little bit more focused and a little bit more directive.

I have written on my testimony three thoughts on incentives—or two thoughts on incentives and one on mandates. How can the Federal Government help to fuel interest in the subject? I think our government must own it. If we go State-by-State or city-by-city, we will not get the required results. There is no lack of material in this area of study. The scarcity is in the incentives or mandates available to drive the issue.

Some thoughts on incentives would be the following: Government should help underwrite the training of K through 12 teachers in the subject matters with funds for continuing education at the post-secondary level. Two, we need to scale up personal finance in all post-secondary general education courses. A course platform that is Web-based, taught by well-trained faculty, would do the job but it requires resources. The third would be a mandate, a mandate much like Congressman Cleaver was talking about except I think it is not a mandate unless you have a proficiency exam. As a member of the Kansas Board of Regents, I will tell you they would have a heart attack listening to me talking about a mandate or proficiency exam in post-secondary, but as a business person, I believe that is some of what works. So a test of proficiency could be mandated by the Federal Government and funding provided for this test either at the end of high school or before entry into post-secondary school. In the event that the student fails, there should be funding remediation.

I have listened to everybody here today. There is a lot of really good stuff going on, so I would not be particularly discouraged. I know you are frustrated because it is government. I am actually encouraged as a private citizen because I do not think I had any idea there was this much going on but there is no coordination and so either the private and public sector have to come together in some coordinated way or we somehow have to get this mass with a single source of energy to get some things done.

The subprime issue is a short-term issue, this is a long-term issue we need to be very patient about and move the system in order to protect the next generation. I might add that I think entitlement reform has a lot to do with this. You ought to care about your kids taking care of themselves or Social Security and Medicare are going to be very problematic to that generation.

Thank you.

[The prepared statement of Ms. Docking can be found on page 101 of the appendix.]

Ms. WATERS. Thank you very much.

Mr. Stephen Brobeck?

**STATEMENT OF STEPHEN BROBECK, EXECUTIVE DIRECTOR, CONSUMER FEDERATION OF AMERICA**

Mr. BROBECK. Thank you, Madam Chairwoman. The Consumer Federation appreciates the chance to participate in this hearing. This is the fourth opportunity we have had in the past 2 years to testify before Congress on financial literacy issues. In the first section of our written testimony, we summarize the key points of our first testimonies. In the third section, we urge Congress to consider the improvement of financial product disclosures as an important strategy for improving consumer financial literacy and decision-making. But it is the second section of the testimony that I will now focus on.

Judging from many indicators, including the lack of commitment by most schools, the minimal resources provided by government and the fact that most Americans have a limited understanding of the financial services marketplace, financial education has been paid lip service but not real attention by most of our society. And we believe that even the expansion of effective individual programs, such as those sponsored by the organizations represented on this panel, including my own, would not alter this unfortunate reality.

So, how can we get society's attention and persuade it to make a greater commitment to improving financial literacy? One approach, and it was suggested by a couple of earlier speakers, is for all organizations committed to this improved literacy to join forces to try to persuade millions of Americans to periodically assess and improve their financial condition and to make available tools for doing so. That opportunity now exists, we believe, through America Saves Week, which this past February brought together over 80 major national organizations listed in an appendix to my written testimony, including more than a dozen Federal agencies and also hundreds of State and local groups, to urge individuals to evaluate and improve their spending, borrowing, and savings habits.

Frankly, America Saves Week 2008 was a mile wide, and with a few notable exceptions, only inches deep. But next year and beyond, those coordinating the week, including fellow panelist Dallas Salisbury, believe that we can add considerable depth as well as great breadth to this initiative. We will do so with assistance from an America Saves Week Web site, which contains specific advice about how different organizations can participate in an array of savings tools for individuals and families. These include video PSAs, the Savings Knowledge Test, a personal assessment of one's savings progress, a personal wealth estimator, a personal ball park estimate of one's retirement savings adequacy, and an opportunity to develop a specific plan for achieving a desired savings goal.

While coordinated by ASEC and America Saves, America Saves Week is a brand and a program that we would like other organizations to appropriate as their own. This past year, for example, the Armed Services embraced Military Saves Week. The North American Securities Administrators Association developed a theme of America Saves through investor protection. The National Foundation for Credit Counseling emphasized the theme of America Saves through debt reduction, and all these organizations crafted their own messages and publicized them.

Let me conclude by saying that America Saves Week provides many opportunities for leadership by Members of Congress, especially in their districts. Simply urging local organizations to participate in the week would be very helpful, but even more valuable would be inviting some of these organizations to a meeting to discuss planning local coordinated America Saves Week activities and both ASEC and America Saves are prepared to support and help staff in any such efforts.

Thank you again for this opportunity to testify.

[The prepared statement of Mr. Brobeck can be found on page 85 of the appendix.]

Ms. WATERS. Thank you very much.

Ms. Janis Bowdler?

**STATEMENT OF JANIS BOWDLER, ASSOCIATE DIRECTOR, WEALTH-BUILDING POLICY PROJECT, NATIONAL COUNCIL OF LA RAZA (NCLR)**

Ms. BOWDLER. Good afternoon, and thank you. I am the associate director for the Wealth-Building Policy Project at NCLR and in this role I oversee our research and analysis on the ability of Latinos to obtain financial security. I would like to extend the greetings and regrets of our president and CEO, Janet Murigua, who was not able to be here at today's hearing. But on her behalf, I want to thank the chairman and other committee members for the invitation, and I would also like to thank Congressman Hinojosa for your overall leadership especially in this area of financial literacy.

The concept of financial literacy is one that is very important to the Latino and immigrant community, yet despite many great intentions, the financial education market is flooded with materials that do not work for Latino families. This is not to say, however, that there is a great need for more and better financial knowledge. In fact, low-income consumers need the same kind of advice and fi-

nancial planning that families with means pay for; they simply cannot afford it.

Today, I will briefly discuss research and analysis done by NCLR in this area. I will also discuss promising community-based strategies to improve financial decisionmaking, and I will conclude with a set of recommendations.

I will start by sharing some of our research. We recently released a report that examined financial education programs targeting Hispanic consumers. We found that most of the materials out there are just too broad. They do not effectively change consumer behavior, decisionmaking, or help families attain assets. This is troubling because we know that owning assets is the best way to help low-income families become financially secure. Thus, financial education programs should, in one way or another, connect families to wealth building opportunities. This is the only way that we are going to close the race ethnic wealth gap that my colleague from the Urban League mentioned.

As a sponsor of housing counseling, we also know that one-on-one sessions are meaningful, effective tools for building both financial knowledge and sustainable wealth. Through our network, we work with more than 30,000 families every year. We understand what it takes to help marginalized communities build financial security through asset ownership. Every day, our counselors meet new families that need deeper services than they can currently provide. In fact, about 80 percent of families who seek advice through NHN are not ready to purchase a home in the near future. Our counselors develop work plans for these families, some of which extend up to 2 years, but what these clients really need is good quality financial planning. In fact, the high turnout rates at free tax preparation clinics and IDA programs shows that low-income families are interested in this kind of service but the financial planning market is driven by the amount of wealth a client already has. Planners that rely on commissions or fees do not have an incentive to serve low-income families.

So NCLR has identified three road blocks to extending quality financial services to the families that need it. First, which I have already alluded to, is that there are few affordable certified financial counselors available. The going rate of $200 an hour is prohibitive for a family of modest means.

Second, there is little incentive for low-income families to spend hard-earned money on a planner. Upper-income families who itemize their income taxes can deduct the expense of their financial planner. This stands in stark contrast to the situation from modest income families who have no such incentive.

And, third, Congress is not investing in this area. In 2004, Congress provided more than $350 billion in tax benefits to upper-income workers to save and invest their money. No comparable investment in savings incentives has been made for low- and moderate-income workers.

Plus, low-income communities are prime targets for financial predators. Hispanics are more than twice as likely as whites to become victims of fraud, and we know that these scammers often pose as “certified” counselors or consultants in order to push their predatory product. We must establish a network of reliable, inde-

pendent financial counselors who can provide financial planning services, budget and savings advice, basic banking skills, and a safe alternative to the scammers.

Let me close with just a couple of recommendations. We need a refundable Federal income tax that will create an incentive for low-income families to see a financial planner. We need an infrastructure of community-based financial counselors modeled on the successful housing counseling program, and we need Congress to explore this theme of financial scams through hearings and reports. Policymakers can take meaningful steps to increase asset ownership among Latinos, and we believe that financial counseling is the lynch pin in this strategy.

Thank you, and I would be happy to answer any questions.

[The prepared statement of Ms. Bowdler can be found on page 67 of the appendix.]

Ms. WATERS. Thank you.

Next, we will hear from Ms. Phyllis Frankfort.

**STATEMENT OF PHYLLIS FRANKFORT, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WORKING IN SUPPORT OF EDUCATION (W!SE)**

Ms. FRANKFORT. Chairwoman Waters and members of the committee, as president of W!SE, and chair of the New York Financial Literacy Coalition, I thank you for giving me this opportunity to share my thoughts regarding financial literacy and education for young people. America desperately needs financial education. We cannot correct the past. We can, however, strive to do better by preparing today's youth to be responsible and financially savvy adults.

We still lack of cohesive national policy on financial literacy that is widely known and an educational commitment. Very few States require or recommend the teaching of finance and the requirements are inconsistent in depth and breadth of content. There is also a lack of funding. I am encouraged by the interest W!SE has received from Representatives Ackerman, Serrano, Velazquez, and particularly my Congresswoman, Carolyn Maloney.

On a national level, the introduction of H.R. 4335 and S. 2671 offer hope for a critically needed, overarching national framework. While I am pleased that the Administration, too, recognizes the need, I am concerned that a recent initiative by the Treasury Department reflects the shortcomings of No Child Left Behind: testing without regard to teaching or learning.

Five years ago, W!SE created the Financial Literacy Certification Program to help high school students become financially literate before they graduate. At the time, 18- to 25-year-olds comprised the fastest growing group filing personal bankruptcy and more young people were dropping out of college because of personal debt than academic failure.

W!SE invites high schools to teach a course or unit on personal finance and then assesses the student's acquired knowledge. We provide curriculum, pre-tests, online practice test questions, and our standardized certification test, available in English and Spanish and validated by industry professionals. Students who pass are certified financially literate and schools, teachers, and students are

eligible for awards based on test results. The word is out; this program is now in 21 States. It has reached 65,000 students and it has grown by 1,500 percent since 2003. We have an average 74 percent of students passing the certification test and the rate is improving to 82 percent in fall of 2007. Before instruction, pre-test passing is 49 percent. After instruction, results have consistently shown a statistically significant improvement of 24 percent or more. Most important, student behavior in managing their own money changes for the better. Clearly, our program and tests work, all tied to curriculum and instruction. We have empowered teachers. It helps teachers to measure whether or not they were effective and it asks students to demonstrate knowledge.

In contrast, Treasury has spearheaded a high school challenge which simply replicates W!SE's concept of a testing and recognition initiative. It is not tied to instruction and it will take precious, limited class time to a little effect. They say it is intended to spark interest when the priority needs to be on getting the job done. The challenge is not only a missed opportunity for innovation in financial education but also a waste of taxpayer dollars.

I am not being self-serving or proprietary. I have conveyed my concerns to Treasury officials. I have offered our assessment tool tied to instruction as a more effective way forward. After all, this same Treasury awarded W!SE its Sherman Award for Excellence in Financial Education just 4 months prior to their decision to develop their own test. And the Department had solicited and received our copyrighted materials. They rejected our offer and have gone forward with their own test not tied to instruction.

In terms of nourishing the minds of our youth, we feel the challenge is a plate of syrup without the pancakes. This is truly unfortunate. What is needed is a realistic, executable approach to financial education. More States need to mandate financial education in high schools, funds to facilitate implementation of these mandates and programs that work are needed, a strong focus on building teacher capacity, efforts to leverage best practices in instructional methods and, of course as mentioned before, coordination. We also need funds to study the long-term effects of financial education. We have young people who graduated 5 years ago, are they still financially well?

Ms. WATERS. Thank you very much. Your time has expired.

Ms. FRANKFORT. And we recommend the swift passage of bills pending before you and that our experience and model of certification aligned to instruction be embraced. Thank you.

[The prepared statement of Ms. Frankfort can be found on page 110 of the appendix.]

Ms. WATERS. Mr. Salisbury.

**STATEMENT OF DALLAS SALISBURY, CHAIRMAN, AMERICAN SAVINGS EDUCATION COUNCIL; AND PRESIDENT AND CEO, EMPLOYEE BENEFIT RESEARCH INSTITUTE**

Mr. SALISBURY. Congresswoman Waters, I want to thank you for chairing this hearing along with Chairman Frank, and I also want to commend and thank Congresswoman Biggert and Congressman Hinojosa for their outstanding work over the years and encouragement in these areas.

Let me start where Ms. Frankfort just ended. Some years back, the American Savings Education Council undertook a Youth and Money Survey and a Parent's Youth and Money Survey. In both of those what we found is that over 75 percent of high school students in America actually have a financial education course available to them in school as an elective, but less than 7 percent take that course. It is given very low priority.

I was recently home—to age myself—for my 40th high school reunion in Everett, Washington. The person from whom I took a financial education course in high school was there to visit with some of us, along with the individual currently teaching that course. When I was in high school, seven students were in the class, then an elective. In this year's last class, 17 students out of a high school population of 900 students chose to sign up for the elective. In many cases, as other speakers have noted, this is very frequently not an issue about an absence of material, about an absence of opportunity, or about an absence of curriculum; the issue is an absence of will and it is an absence of priority.

The last panel was intriguing in terms of the heavy-duty fudge factor that marked responses to your direct questioning concerning whether such education should be a requirement in school. Others at this table have said it should be. As one who took it and benefitted from it, I have urged many of my nieces and nephews to sign up, and have been told other things were more important. I would simply, on a personal level, suggest that in the absence of a mandate, it is very unlikely that students will choose to take the courses even if they become universally available. So I encourage you to become more directive, so to speak.

Secondly, I would note vis-a-vis the content issue, I have had the privilege the last 4 years of serving on the FENRA Investor Education Foundation Board. We have found it excruciatingly difficult, frankly, to give away money in a way that we felt would make a difference. Why? Because there is an extraordinary number of people and organizations that want money to create yet more content but do not want funding for delivery, funding for training, and funding to deliver real results, and we have been trying to get it to that point. So I encourage you as well, per the comments to FLEC and others, to consider the issue of getting people to be willing to use the existing resources effectively.

For example, the American Savings Education Council, created in 1995, working with the Federal Government and now with over 200 private partners, has created 86 public service announcements under its Choose to Save Program. These are high-quality announcements. They received the 2007 National Emmy Award for Savings. We have offered those PSAs free of charge to anyone in the Nation who wishes to take them, add their branding to the end, delete ours, and to use them for public education. Military Saves has used them. America Saves has done that. The U.S. military uses them internationally. It was noted by the U.S. Treasurer that FLEC chose to take one PSA and use it but, Congressman, per your point, they were offered 86 of them that could have been at the cost of about $400 per PSA and turned into promotions for money.gov. Instead, we have to create something new out of whole

cloth and 4 years have been lost, compared with what could have been.

I do not say that to whine; I say that to suggest there is much that could be accomplished if everyone simply became a little competitive, a little less brand-oriented, and a little more oriented toward actually making something happen.

And I conclude with the comments and endorsement of what Mr. Brobeck was saying. We worked with his organization, America Saves, to create a new Web site, non-branded, Americasavesweek.org, and to urge all organizations to use that as a rallying point for all of their own programs in order to attempt to take this more broadly to communities across the Nation, with the message of a very regular checkup. And I would again urge individuals and organizations to do that. I invite every single Member of Congress to promote Americasavesweek.org to their constituency. There is nothing commercial on it. Congresswoman Biggert and others have done this. Congressman Hinojosa has done this, and we would welcome that type of support from all.

And, finally, I would simply underline to this committee the tremendous importance of what you are doing and also the tremendous importance of something that was downplayed a little bit by the first panel: The extraordinary importance of effective consumer protection and very, very powerful regulation. The subprime crisis has made the necessity for this absolutely important.

Thank you.

[The prepared statement of Mr. Salisbury can be found on page 201 of the appendix.]

Ms. WATERS. Thank you very much. I will now recognize myself for 5 minutes for questions. First, to you, Mr. Salisbury, what was the name of the class that you took when you were taking this literacy training?

Mr. SALISBURY. Business education.

Ms. WATERS. Business education. What is the name of the class today?

Mr. SALISBURY. Business education.

Ms. WATERS. Do you think people are just not interested enough and that the class is attractive enough to interest students but somehow students do not get it?

Mr. SALISBURY. Based on the size of the enrollment on a consistent basis, I suggested to the school that, after so many years of getting such low enrollment, they might want to get a marketing approach and re-name the course something that would get people more aggressively interested in it, something like, "How to assure that you will be able to buy your iPod, your BMW, and afford college."

Ms. WATERS. That will do it, how to make money, how to get the things you want. That is what I was wondering, whether or not the title of the class was sexy enough.

Let me turn to Mr. Marc Morial. We are concerned about literacy and not just focused on the subprime crisis, however, it is a crisis and we have to pay attention to it and try and figure out what to do to help owners save some of these homes. One of the things that we have documented is that minority neighborhoods were targeted. For both you, Mr. Morial and Ms. Bowdler, the Council of La Raza,

are you seeing this in the community that you serve? Do you have an extraordinary number of foreclosures? And, if so, what are you doing about it? What service do you offer, first Mr. Morial?

Mr. MORIAL. Thank you for the question. We see, and the evidence is incontrovertible, that there are a high number of foreclosures in urban and African-American communities. It stems from the fact that about 50 percent of African Americans who purchased homes in 2005 and 2006 did so with subprime mortgages; that is 50 percent compared to about 13 percent in the overall population.

Second, we have, and the evidence again is incontrovertible, that many African Americans who could have qualified for a normal customary fixed 30 year conventional mortgage, could have qualified, in fact were directed, steered, pushed, and targeted in a reverse redlining process into these high interest, subprime mortgages.

What we have done in 2007 is we issued in February of 2007 a Homebuyer Bill of Rights that outlined a number of recommendations, key are the expansion of homeownership counseling, and we did about 4,000 cases like that in 2007. Secondly, urging this Congress to pass a national anti-predatory lending law to put some future controls on the excesses and practices that led to this meltdown, as well as a number of other things. So to answer your question, yes, it has disproportionately affected African Americans in urban communities. Yes, we have done a number of things, but we need to be able to expand dramatically our homeownership counseling to try to help more people who are in default, who are at risk of losing their homes to re-negotiate their mortgages and in order to protect their homes.

Ms. WATERS. Ms. Bowdler, what are you doing, what is La Raza doing?

Ms. BOWDLER. I would just echo the comments of Marc, I think that is exactly right, our communities were clearly targeted. We have been up here several times talking about that. We now have a massive counseling effort underway. Our counselors went from a call a couple of times a week to dozens upon dozens a day, and they are working at 150 percent to keep up with that but there are simply not enough counselors out there on the ground to do this work. They cannot keep up with it. We need more resources but we also need lenders to come to the table and servicers to come to the table and do the kind of loan modifications that we need to make these loans affordable for these families. Counselors play a really important role for the most vulnerable families out there. They are not going to get to see every family that needs this kind of help, so we need servicer and lender accountability as well.

Ms. WATERS. Thank you very much. Ms. Docking, I think you talked about K through 12 curriculum that has been advanced by your program, Financial Fitness Foundation?

Ms. DOCKING. Not advanced—it is a law, it was changed as part of a Senate bill. We advanced it in terms of just organizing all the players. By the way, an outstanding bipartisan effort. I am really proud of everybody in Kansas for getting that done.

Ms. WATERS. I am a little bit curious about what you do with kindergartners and first graders in teaching financial literacy, and I am wondering, is the piggy bank obsolete?

Ms. DOCKING. No, actually, you would be surprised how much kids like the concept of money because it makes concrete math and fun math. The piggy bank is not obsolete. May I defer to Carol Rupe who actually runs our program to answer the specifics of your question on the curriculum? She is right there.

Ms. WATERS. No, I do not think so. What we will do is we will ask you to submit that for the record.

Ms. DOCKING. Alright.

Ms. WATERS. We will get that information from you. We are going to continue with our panelists today because we have to be out in a certain length of time, so let me just move on.

Ms. DOCKING. Alright, thank you.

Ms. WATERS. Thank you very much. I am going to yield to Mrs. Biggert for 5 minutes.

Mrs. BIGGERT. Thank you, Madam Chairwoman, and thank you all for being here. I am sorry that I missed some of the testimony, but I will review it. And, Mr. Duvall, it is great to see you, you have done so much for financial literacy and have been so active in this. I really appreciate all that you have done. I would like to ask you, looking at the education, and we have been since 2003 working on this, and I am really kind of discouraged in the fact that we are still moving forward but there is not any great movement for how we are going to address financial literacy for kids or seniors or those in between, and we are seeing the mortgage crisis and people getting into things that they did not understand. So you are advocating having this financial literacy in the curriculum in schools, is that correct?

Mr. DUVALL. Absolutely, that is the heart of our mission as you know, Congresswoman Biggert.

Mrs. BIGGERT. Right.

Mr. DUVALL. And we do keep chipping away at it. I have not gotten discouraged yet. You are seeing more States that are including economics and personal finance in their requirements.

Mrs. BIGGERT. That is what I wanted to ask you, about how many States now have really mandated that for curriculum?

Mr. DUVALL. All of the States now include economics, basic applied economics in their standards for the schools.

Mrs. BIGGERT. But do the children have to take the course?

Mr. DUVALL. No, a smaller number are required to take a course and only about half the States include personal finance in their State standards and a smaller number make it a requirement for graduation.

Mrs. BIGGERT. Is there anything—we do not want to be the national school board, and I think we have gotten into a lot of things through No Child Left Behind and things that maybe we should have left some of this to the States, so I am cautious about what we do but how can we show the States and the educators that this is really an important issue that they should be teaching? And you have developed materials, it is right there for them.

Mr. DUVALL. I think what is required to change the situation is to have standards-based materials and then to do the teacher

training that enables the teachers to use those materials effectively and then to do testing and assessment and evaluation.

Mrs. BIGGERT. Do you think that No Child Left Behind is getting in the way?

Mr. DUVALL. Well, it has had what the economists call the unintended consequence of crowding other subjects besides reading literacy and math literacy to the side. Efforts have been made, and you have been a champion of some of those like the Excellence in Economic Education Act, to restore an emphasis on economics and personal finance to the core curriculum. I think that is the way to go for the future to make a difference is in the re-authorization debate for No Child Left Behind, to make sure that economic and financial literacy are not crowded out.

Mrs. BIGGERT. Thank you. And then, Mr. Salisbury, you talk about the messages that individuals receive each day to spend and if need be to borrow, and I suppose we go back to a generation that is not as visible any more but the ones that went through the Great Depression. I can remember my husband telling a story about the fact that he and his mother were taking the street car, and he had his money and he lost a penny and so they could not take the street car because that penny was part of the fare and how those messages—and now we want to even do away with penny because it is superfluous right now. It does not add up to anything, I guess is what they are saying, but what can we do for this message for saving? We have minus one percent saving in this country, how are we going to encourage people to save?

Mr. SALISBURY. Well, I lost my father last summer just short of 94. When I went to work at age 13, he said, "Now, you save 15 percent of everything you earn and you do that from now until you quit working and you will be fine." That kind of a message at home is something that is irreplaceable. But as a practical matter, even as the last panel kept emphasizing as they are financial industry regulators, we need to consider what various financial firms do in this area. That is, take any of those firms and look at what they are spending on financial education, and then look at what they spend every week on advertising encouraging people to borrow and spend, and the amount they spend simply to send me the flow of applications for credit cards that I do not want each and every month. So I think part of this is recognizing that, if we want a focus on savings education and financial literacy, frankly it is going to happen only if it is mandated. It is only going to happen, with a Federal Government that is frankly de-regulation oriented, if there are mandates for consumer protection legislation and if that effort is intense.

And as a practical matter, a focus on basic financial education, public service announcements, etc., needs to be required, not merely encouraged. On the front page of the Business Section of The Washington Post this morning, it noted, "Will we keep the consumer spending? They are 70 percent of the economy." If we cannot keep them spending, good gosh, we will not have growth, every emphasis is on getting people to borrow and spend, even with the stimulus package—spend your tax refund, certainly do not put it in an IRA or save it.

So I think it is cultural, it is cultural from the government on down. As my father, were he still here today would and did tell me throughout my life, "They will tell you to spend it, you cannot spend it until you already have it in the bank. They want to sell, that is how they make their money. Recognize it is a self-interested message and look out for yourself first."

Mrs. BIGGERT. Thank you.

Mr. HINOJOSA. [presiding] The gentlewoman's time has expired. We need to continue to expand our discussion but we must move on. I am delighted to have been given the opportunity to continue the chairman's work here. I would like to call on the gentlewoman from New York, Carolyn Maloney, for 5 minutes.

Mrs. MALONEY. I thank the gentleman for yielding and for his deep concern about financial literacy and all of his hard work, along with Ranking Member Biggert.

I would like to ask Mr. Duvall, your organization's Economic and Personal Finance Education Report Card on the Nation's Schools found that only seven States require a personal finance course as a prerequisite for graduation. NCEE found that only nine States actually test the students knowledge of personal finance. What specific initiatives are your members working on to increase these numbers?

Mr. DUVALL. We work on that issue by both advocacy and by service and delivery. In the advocacy area, our State organizations, our affiliates in all of the States, try to push this cause with the State legislatures and with the decisionmakers for education within the states.

Mrs. MALONEY. Are you active in every State, is your organization active in every State?

Mr. DUVALL. Yes, we have a council in every State, some are stronger than others but evidence of the difference that can be made was given by my colleague in regard to the State of Kansas where they have put through legislation that calls for personal finance being taught and delivered in the schools in the State.

And then in terms of service and delivery, we do the massive teacher training effort in every State through our 200 university-based centers. We get to the teachers because they come to the university centers for continuing education credit. So we are working with K to 12 teachers, 150,000 last year. And in turn that has a multiplier effect because those teachers teach several generations of students.

In improving the situation and the national map, I think both of those things are required, advocacy and service, working through the school systems and with the teachers and the school boards and the decisionmakers to really get it into the schools. One of the challenges is shelf space and the competing claims for attention within the curriculum. So our strategy on that is to work by infusion to get basic personal finance and basic applied economics into the math curriculum, into the social studies generally, into history, and in science as well.

Mrs. MALONEY. I would like to really ask a question to any panelists if they would like to respond. I am a former teacher, and I watch education in my district, I watch it with my children, I watch it very carefully, and I have noticed, I believe, and this is

my interpretation, I want to make it clear, it is my own interpretation and not a statistic, that there is almost an attitude against financial literacy in the schools. And I cite one school, and my daughter was in this school actually, and I thought the teacher was great, she was teaching financial literacy, she divided the kids up into teams, they were buying stocks, they were investing, they were studying finance. It was a tremendously exciting interactive financial learning and one of the parents complained, and they had it removed from the curriculum. I thought it was outrageous. But there seems to be an attitude of fighting it.

I am a product of the public school system and in the public school system when I was growing up, we got a little bank card and we were encouraged to save, and we got our allowance and we all saved and some people have criticized that this "helps the financial system" and it has been taken out of the school curriculum. And to me finance, as all of you have said, are part of our lives, it is part of our next generation's lives. It should be required curriculum. Why are we having so much trouble getting this as part of the curriculum and in many cases removing it. They have removed the curriculum that I had as a child. And I just want to open it up for comments because it seems to be an attitude or something. And actually the financial curriculum that is taught in my district, in many cases it is done as an extracurricular activity, and I have been invited in for a day where they "teach finance" today. It is not an integrated part of the curriculum and there seems to be, and maybe it is my own interpretation, but they do not even have the little bank cards anymore that we had in school and this is how you save and this is how you bank and this is how you use the financial system. So I would like to open it up for any comments? And my time has expired, I thank the gentleman.

Mr. MORIAL. I want to offer an observation and again, this is a personal observation, I think number one, the foundation of this Nation's political system is democracy. And it used to be that we focused and it was required in schools that children learn civics, the Declaration of Independence, the basis of the Constitution, the three branches of government. The foundation of our economic system is the free enterprise system, which is based on individual and collective choices. Each system is based on and presumes that citizens have basic knowledge and information that empowers them to make personal choices. We have forgotten and walked away from an understanding that this basic information and preparation is needed and necessary for people to be able to navigate.

My second point is this, I had an opportunity to teach a financial education class to high schoolers in Chicago about 2 years ago. I started the class by raising up my cellphone and asking each high schooler who had a cellphone to raise it up. Then we went around the room and asked each of them, how much are you paying for your cellphone? It ranged from $13 a month to $160 a month. And the students were shocked that they did not even know, and they felt very cheated that some students had $13 a month cellphones and some had $170 a month cellphones because they were falling prey to marketing and aggressive appeals without even being empowered to ask questions, to examine choices. The point is that the financial system that our children live in and we live in today is

different than 30 years ago when only wealthy people had credit cards, when there was one kind of phone bill, one kind of mortgage, and one kind of way you could purchase a car. There were no leases, open-end, closed-end, none of the choices that are available. So it has been positive that there are choices but it also means that there is potential for abuse. So I think that it requires a fundamental understanding and a shift in our thinking that training and preparing young people to make these intelligent choices is going to improve our system.

And that is an observation of what in fact—I think sometimes we are stuck in the past in thinking and not understanding how sophisticated things have gotten. I think that we do not understand that the fundamental is that an educated society about its government and about its economic system is necessary for the overall health, quality, and performance of our Nation. That is why, for us, when we look at the disparities that exist in income net worth and jobs, we recognize that a component of it is to inform and empower people with knowledge and information. That is not all it requires but it is fundamental.

Mr. HINOJOSA. Thank you, Mr. Morial. The gentlelady's time has expired. I am going to take the opportunity to ask a few questions. I am going to start with Ms. Jill Docking and say that I have enjoyed listening to everyone who has made their presentations on both panels. I am a little bit happier with the second panel than the first, so I will probably show you that by the line of questioning that I am going to use.

It was exciting to hear what has been done in Kansas, and I commend you for the spirit and the optimism that you have shown in your presentation. Listening to everyone, I have come to the conclusion that possibly the reason that Mr. Salisbury gave that very few students signed up for the elective of business education is because of the answer that my youngest of four daughters, oftentimes says, "Dad, it is because it is boring." When I say something about what is going on in school and possibly the lack of interest, and that is one of the common responses of a 12-year-old. I have four daughters and the youngest one is highly spirited and oftentimes answers exactly how she feels.

Possibly, Mr. Salisbury, we need to talk about how to take the boredom out of this subject. And I am going to ask Ms. Docking if maybe you could answer that question: How can we make this more exciting like music, like theater, like the things that our kids like?

Ms. DOCKING. Yes, Congressman. I would refer you to the front page of the Wall Street Journal today that has an article on how they have made accounting fun. It is a little easier to make financial stuff fun than accounting, and there are all sorts of programs that are now being used interactively on cellphones to teach kids in a much more interesting way how to do this. On our seminars, we specifically, we zeroed in on that question because we had kids in our audience who were going to Harvard, and we had kids who might be going to jail, and I am not kidding because we had full senior classes in large urban areas, and we had to keep everybody interested.

If I were queen and I were doing this FLEC thing, I would hire a company, and I think Apia is one of the private companies, I know there are many that do that interactive, Web-based teaching. That is how this generation appears to learn, and I know people who are doing programming with W!SE, you probably sort of figured that out, haven't you, how to get them to do it? So I would use we have a lot of very creative private companies, but is not this FLEC just government-oriented, are you allowed to use the partnership with private companies to get that done?

Mr. HINOJOSA. Congress can modify FLEC and amend the FACT Act. If it is not working, we are responsible for making changes so that it does work, so Congress is pretty powerful.

Ms. DOCKING. Yes, that answers the question. By the way, as Congressman Cleaver has come in, Financial Fitness Foundation has looked intensively at—now that we have gotten it into the school system, I would love to get it in the churches in Kansas because there is a lot of curriculum teaching faith-based financial planning in urban areas inside churches. I know a lot of teaching goes on, and I can get it from the kid to the mom and dad to the grandparents, so I think we need to think a little bit outside of the box. I do not know if Congress can think that way, but we have been trying to think that way.

Mr. HINOJOSA. Thank you. I like your response. I want to ask some other questions. Yes, Ms. Frankfort?

Ms. FRANKFORT. I just would like—

Mr. HINOJOSA. I cannot hear you.

Ms. FRANKFORT. I am sorry. I would like to add to what Ms. Docking said by suggesting that we talk to and have a conversation with the hundreds of teachers who are very successful in teaching personal finance. We have a system whereby we honor teachers who have 90 percent or more passing. And in most of our schools, we are reaching all the seniors in a high school, and so we have students who are special education, we have students who are very bright, students in difficult economic situations, but they are consistently very successful. So I think that there should be some kind of follow-up or discussion with them that might inform and help answer that question.

Mr. HINOJOSA. Thank you for adding your thoughts on that. I want to forewarn you that Chairman Frank is going to be coming in a few minutes and taking over the Chair's responsibilities here, and he let me know earlier that he wants to have some follow-up, in other words, what is next, be thinking about answers to his questions because we think that we have heard some very valuable information here from all of the panelists but now what we need to know are what are the next two or three steps we need to take to be able to turn this around and make it work because we are in a crisis?

And, finally, I want to conclude my questioning by saying to Ms. Bowdler thank you for coming in place of Ms. Janet Murigua. I think those of you who addressed the limited English-proficient population and those who are so challenged because of low-income families, as you did Mr. Morial, I think that it is like teachers who are asked to go to neighborhood schools where 80 and 90 percent of the children qualify for the free lunch program because in those

schools, they oftentimes are the ones who are scoring the lowest on standardized tests, not because they are not smart, it is because our programs just are not designed to really help the children who remind me the theory of a great pair of educators known as the Cardinas and Cardinas' "Theory of Incompatibility," and I said, "What in the world is that?" They said, "That is where you try to take a square peg and put it into a round hole," and that I think is happening in our public schools and certainly is a serious problem. I am not going to ask any more questions because there are some of my colleagues who would love to have time to ask their questions, so now I would like to recognize the gentleman from New York, Congressman Greg Meeks.

Mr. MEEKS. Thank you, Mr. Chairman. Let me ask this question because I am concerned, in my community and all across America, we had a program in the Congressional Black Caucus called WOW, With Ownership Wealth. We just a very short period of time we were telling everybody to buy a home. Why? Because our home is an appreciating asset and we were urging folks to buy homes and take advantage of these products, etc., and I don't know whether or not we were doing the proper kind of counseling or training even while were doing that, just urging folks to buy a home and they were doing it, and now we have this terrible crisis. Let me ask Mr. Morial first with the Urban League, I know that you are in Nashville and you are doing a lot counseling in different places, could you tell me the difference between what you provide to communities as the counseling is concerned what NeighborWorks does and whether or not your services are the same or not, can you give me an idea on that?

Mr. MORIAL. Thank you, Congressman Meeks, and I appreciate your question and certainly your leadership and advocacy. There is a great deal of compatibility with what others may do and what we may do with this distinction. We not only help people with homeownership education and counseling, we provide job training, job placement, and a broad array of services through our affiliates from coast to coast. So if a person is behind on a mortgage, for example, and one of the challenges is that they may have lost their job, then our approach would be not only to assist them in re-negotiating with the mortgage holder but to assist them with job placement. So it is a case management approach that the Urban League has employed now for its almost 100 years of existence.

Secondly and very importantly, our affiliate offices are located in the communities that we serve. By and large, we are located in the neighborhood, near to the constituency that we serve, not an access by going downtown or going across town but in the communities that we serve. And we think that the proximity of financial education, homeownership education and homeownership counseling services to neighborhoods is a very important part of the delivery system. If we are going to expand the availability of financial education and homeownership counseling, it has to be provided through multiple sites and multiple locations. Schools, yes; faith-based, yes; community-based, yes, and we are a community-based organization that does that.

Ms. BOWDLER. Thank you for your question, and I want to respond to one of the comments that you made in your opening about

what were counselors out there doing? We told them to go out and buy homes and now where are they at? The role of a housing counselor has always been and continues to be an independent advocate for that family. And what counselors do is they take a family in, they make a financial assessment, and they put them on a track. Their goal is to put that family in a situation where they are getting a home for long-term sustainability. So from our perspective, the question is not just should a family buy a home, it is when should they buy a home and when are they ready, which is why you see families that have gone through counseling programs like NCLR or Urban League perform much better. And we are talking about low-income borrowers who got prime products, who were the prime targets for all of the subprime mess that are now performing very well. It is that kind of success that we would advocate that you need to replicate in the area of financial counseling.

The fact of the matter is that affluent families, whether or not you went to a class in high school, need this kind of service; they need financial advice. They go out and purchase it, they pay somebody to tell them what to do with their money. Low-income folks who have even less resources and less means have even more of a need to know exactly what to do with each one of their hard-earned precious dollars. And so we would advocate for a similar kind of independent financial counselor that could provide free or low-cost advice to families as they are about to make major purchases, not just homes but credit cards, open your bank accounts or get your tax credit back.

Mr. MEEK. That is exactly right because sometimes when folks go through counseling, you do not get into the larger credit issue to understanding. That is one of the questions I wanted to ask you and maybe Mr. Morial and the others, when you counsel individuals do you go into the other credit aspects because a lot of people do not understand credit and look into further their financial needs, etc., is that part and parcel of the model that you use when you counsel with them because I know when I have had individuals come into my office and had some counseling, they did not go into it at all. And I was just wondering whether your two organizations would do something of that nature?

Mr. MORIAL. If I can, I think, as I shared earlier, because we take a holistic approach, the way we would approach it is to provide and sort of deal with all of the family or all of the client's issues, challenges, and problems. If you do financial education/homeownership counseling in the correct way, then it is holistic. It is not just narrowly tailored, and that is why providing the service through a trusted community-based organization like the National Urban League and its affiliates, like the National Council of La Raza and its affiliates or faith-based is much different than if it is provided by a mortgage broker, a mortgage company, a financial services company, a real estate concern whose only emphasis is to try to get a person into a home now versus helping the person prepare themselves financially for asset building and certainly ultimately to get into a home at the right time and on the right terms and under the right circumstances so that they can sustain that asset.

Mr. HINOJOSA. The gentleman's time has expired, and I have been told that another committee is coming in at 1:30. Being that the chairman has not returned, I am going to ask the question that he said he would be asking you, and that is, what are the next steps? I apologize, Mr. Cleaver, that I am not going to give you the 5 minutes that you are entitled to, but I guarantee you that you are going to like the answers that you are going to hear because being that I have to be out of here, I am going to give each one of you 1 minute, and only 1 minute, to answer the question, what are the next steps that we should take to turn this thing around and say as a result of panel one and panel two, we have found the answers to turn this around and make it better. So I will start with you, Mr. Salisbury. You have 1 minute.

Mr. SALISBURY. Number one, Congress recognizing, in spite of State education requirements, that the No Child Left Behind program should include a mandate that some type of financial literacy education be a part of every curriculum in the United States. Secondly, I think that—

Mr. HINOJOSA. Do not give me two, just give me that one. Thank you. Ms. Frankfort?

Ms. FRANKFORT. And, secondly, the legislation that creates this mandate should also include funding to support the rapid expansion of that which works because there are initiatives that are very effective, whether it is the counseling or a program in a high school but resources are required to make that happen.

Ms. BOWDLER. Yes, I would say that we need to expand the incentives that we offer to affluent and upper-income families to save and get financial advice to low-income families. There is no reason why low-income families should somehow be held to a higher standard of financial literacy, to sort of inherently know how to invest their money and so they need those same incentives.

Mr. HINOJOSA. Thank you. Mr. Brobeck?

Mr. BROBECK. All or most of us, I think, need to join together behind a very high impact initiative, and I cannot think of a more effective initiative than all of us encouraging all Americans annually to assess our financial condition and take any remedial steps, and to provide the tools and encouragement to Americans to perform that assessment.

Mr. HINOJOSA. Thank you.

Ms. DOCKING. If I only had one extra dollar, I would spend it on getting teachers in the K through 12 curriculum, as well as post-secondary, educated on personal finance with continuing education.

Mr. HINOJOSA. Thank you.

Mr. MORIAL. For this committee and this Congress to lead a broad, national partnership between the public, private, and not-for-profit sectors to develop a womb-to-tomb system of financial education, which has as its goal helping all Americans increase their net worth and build assets and close the wealth gap.

Mr. HINOJOSA. Thank you. Mr. Duvall?

Mr. DUVALL. Legislation that makes it a mandate that personal finance, financial decisionmaking skills will be taught in the Nation's schools, K to 12, and then a massive program for teacher training and professional development for teachers so they can do that.

Mr. HINOJOSA. Thank you. We did it in record time, and so I am going to do exactly what I said earlier, Congress is powerful and can do whatever they want, I am going to recognize Congressman Cleaver so that he can have his 5 minutes.

[Laughter]

Mr. CLEAVER. Thank you, Mr. Hinojosa. Frankly, the panel has already responded to the questions that I had planned to ask. And, like you, Mr. Chairman, I appreciate this panel, appreciate the fact that the others came, appreciate the testimony from this panel. One out of four Americans tragically and painfully are unable to lay out for themselves or anyone else how they are going to manage their money and most of them according to polls, a Nielsen poll, they cannot even tell you whether or not they will have extra money at the end of the month. And so I appreciate your presence here today and the information has been valuable. Thank you.

Mr. HINOJOSA. Thank you. The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record. With that, I declare that this hearing is adjourned, and we thank you.

[Whereupon, at 1:30 p.m., the hearing was adjourned.]

# A P P E N D I X

April 15, 2008

U.S. Congresswoman
Ginny Brown-Waite
*Representing Citrus, Hernando, Lake, Levy, Marion, Pasco, Polk, and Sumter Counties*

Committee on Financial Services

## "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives"

April 15, 2008

Statement for the Record

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Thank you Mr. Chairman for holding this important hearing today. I think we can all agree this hearing could not be more timely.

It is no secret that we have a real crisis in the United States with foreclosure rates that compare with the Great Depression. We can blame this on a number of reasons, but one could argue if homeowners had been better educated in financial matters they could have avoided being duped into bad loans or could have taken better risks.

Moreover, the Organization for Economic Co-operation and Development found in a 2005 study that 2 out of 5 Americans are not saving for retirement. This statistic is alarming, at the least.

Other members of the OECD have taken grand steps in improving the financial literacy of their citizens, and I am saddened the United States is not leading the pack. For instance, the UK has instituted a 7-point plan to increase financial literacy that involves new parents, schools, young adults, the workplace, consumer communications, online tools, and money advice and spends roughly $20 million per year on this program.

I appreciate the efforts the U.S. Treasury Office has taken to educate Americans through their partnership with the American Savings Education Council. However, Americans will never improve their financial literacy if we only look at this through a macro-view. If Congress cannot get parents, teachers, students, and children involved in improving their understanding of financial markets and basic concepts such as compound interest rates, balloon payments, and the importance of credit scores, we will never improve our national savings rates and provide stability to families in tumultuous economic times like these.

I look forward to hearing from the witnesses today on how we can accomplish this, and I yield back the balance of my time.

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**Congress of the United States**
**House of Representatives**
**Washington, DC 20515-1407**

Financial Services Committee
Hearing "Financial Literacy Education: The Effectiveness of Governmental and Private Sector Initiatives"
Opening Statement for Congressman André Carson
April 15, 2008

Thank you, Chairman Frank and Ranking Member Bachus for holding this important hearing today on efforts to promote financial literacy. I want to thank the witnesses today for their hard work in reaching out to consumers to educate them on the importance of debt management and asset building.

Today, as citizens are due to turn in their taxes, they face increased financial difficulties as foreclosure rates soar, health care and energy costs continue to rise, and in many states like my own, there are substantial job cuts. In this turbulent time in our economy, it is especially crucial that consumers become knowledgeable about their own financial situation and that we take steps to ensure our children receive proper financial education to plan for their future.

In my district, groups such as the Indianapolis Asset Building Campaign are working to increase financial literacy in the city, especially among moderate and low income individuals. The campaign was spearheaded by my grandmother, Representative Julia Carson, Former Mayor Bart Peterson, Momentive, Purdue Cooperative Extension, Indianapolis Neighborhood Housing Partnership, the Boner Center, Junior Achievement, the Internal Revenue Service and the Annie E. Casey Foundation.

It has been proactive in connecting taxpayers with financial literacy information such as free preparation services, tax credit information, the availability of low or no cost savings and accounts and predatory lending. These are the kinds of efforts needed to stem the kinds of cyclical debt low and moderate income individuals frequently become trapped in.

I look forward to hearing your testimony today and working with my colleagues on the Committee to find the most efficient and effective ways to target information to enable consumers become savvy on the complex financial products we have in the marketplace and prevent them from becoming dependent on credit or victims of predatory lending.

PRINTED ON RECYCLED PAPER

**To:** **Financial Services Committee**
**From:** **Congressman Joe Donnelly**
**Re:** **Statement for the Record for Financial Services Hearing on "Using FHA for Housing Stabilization and Homeownership Retention"**
**Date:** **April 9, 2008**

**Opening Statement**

I want to thank Chairman Frank and Ranking Member Bachus for holding this very timely and important hearing. We have all witnessed the devastating collapse of the mortgage market that has unraveled over the last year. This tragedy has not only struck homebuyers who entered into non-traditional mortgage products that they now find they are unable to re-pay, but has reverberated throughout the economy. Everyone from low-income homebuyers to senior citizens who rely on investments for retirement have suffered as a result.

Indiana has been one of the hardest hit states in this foreclosure crisis. Loss of manufacturing jobs combined with a rise in exotic mortgage products and lack of scrutiny in underwriting standards all seem to have contributed to this nightmare. According to the Bureau of Labor Statistics, our state lost 10,000 jobs in February of this year and has lost a total of 27,000 jobs in the manufacturing industry since 2000. These devastating numbers have played a significant role in the mortgage crisis and led to a disproportionate effect on our state, making Indiana one of the hardest hit. In 2007, 53,000 homes received foreclosure notices in my state alone. This number is up 74 percent from the number of notices in 2005. That means that 53,000 people in my state will be forced out of their homes, may have to pull their children out of schools and find another place to live.

This House Financial Services Committee has been very active in trying to remedy some of the pain to borrowers so that families can develop a workout plan to pay off their mortgages and remain in their homes. Chairman Frank's new proposal to allow the Federal Housing Administration to insure refinanced mortgages that have been written down by a mortgage holder or lender will allow borrowers to develop a plan that will work for them. If a home is foreclosed upon, it devalues significantly, reducing surrounding property values and the lender has trouble recouping the loss. I commend the chairman for his tireless effort to help distressed American families who have been impacted by the mortgage crisis.

It is important that we work together in a bi-partisan manner to ensure that families are able to find a way to stay in their homes. This is a problem that will only continue to get worse and if we can find a way to workout a plan to keep families in their homes, then we can help to ease the pain that is being felt in the overall economy.

Thank you, Mr. Chairman.

**REMARKS OF THE HONORABLE RUBEN HINOJOSA**
**HOUSE COMMITTEE ON FINANCIAL SERVICES**
**HEARING ON FINANCIAL LITERACY**
**APRIL 15, 2008**

Chairman Frank, Ranking Member Bachus, I want to express my sincere appreciation for you holding this important and timely hearing today on financial literacy. This Committee has held two or three hearings on financial literacy in the past, and I look forward to working with the Chairman on additional hearings on financial literacy either later this year or sometime in the 111th Congress.

Throughout my political career, I have been dedicated to moving my constituents away from payday lenders, predatory lenders and check cashers and into such mainstream financial entities as banks, credit unions and other financial institutions.

It is my hope that by moving them into the financial mainstream, my constituents and others in the United States will be able to open checking and savings accounts, establish credit and eventually realize the American dream of homeownership. One of the ways I work toward this goal is through financial literacy, and a collaboration with the private and public sectors.

Over the past six years, I have worked closely with my good friend and colleague Congresswoman Judy Biggert, to shed light on the need for improved financial literacy rates in the United States. In 2005, Congresswoman Biggert and I co-founded and currently co-chair the Financial and Economic Literacy Caucus. At present, 79 Members of Congress have joined and participate in this Caucus.

Establishing good spending and savings habits early on is crucial, which is why we need to work more closely with the Department of Education, the federal government and states and localities to supply our students with teachers who can teach not only theoretical economics but also pragmatic financial literacy, such as how and why to open a checking and savings account; pay bills on time; obtain a free copy of their credit report; and establish good financial planning habits.

We also need a streamlined way to provide financial literacy education to adults.

Chairman Frank, our government should lead by example. It should coordinate and communicate a unified message on financial literacy and help us establish a national strategy, which, according to the GAO, the Financial Literacy Education Commission, failed to do.

We should authorize and appropriate such funds as necessary to create a broad-based public awareness campaign. FLEC has failed to produce a multimedia campaign as required in Title V of the FACT Act despite having had four years to do so.

I am very proud that Texas is one of the few states that requires some form of financial literacy for graduation from high school as well as permits its residents to impose credit freezes.

Mr. Chairman, I look forward to hearing from our witnesses here today, and hope to coordinate and collaborate with them on financial literacy events and ideas in the future.

At this point, I ask unanimous consent to enter into today's record the following:

- A copy of Jump$tart's joint press release with Chairman Bernanke;
- A copy of Charles Schwab's "Parents & Money" survey;
- The Executive Summary of the Employee Benefit Research Institute's Retirement Confidence Survey;
- Testimony of the American Financial Service Association Education Foundation;
- Statement of Richard Woods of Capital One;
- Statement of Consumer Action;
- Comments from the Networks Financial Institute;
- Statement of the North American Securities Administrators Association
- Statement of the Consumer Bankers Association;
- Statement of the National Association of Federal Credit Unions;
- Testimony of the American Institute of Certified Public Accountants;
- The 2007 National Council of Economic Education's Survey;
- Comments from the National Youth Involvement Board
- Press Releases from the FDIC;
- The GAO Report on the Financial Literacy and Education Commission;
- H.Res. 1079, Recognizing the Goals and Ideals of Financial Literacy Month; and,
- Testimony from the American Bankers Association

NCLR

# A New Strategy for Building Wealth in Latino Communities

Presented at:

**Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives**

Submitted to:

**U.S. House of Representatives Committee on Financial Services**

Submitted by:

**Janis Bowdler**
**Associate Director, Wealth-Building Policy Project**
**National Council of La Raza**

NATIONAL COUNCIL OF LA RAZA
Raul Yzaguirre Building
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April 15, 2008

Good morning. My name is Janis Bowdler, and I am the Associate Director of the Wealth-Building Policy Project at the National Council of La Raza (NCLR). NCLR is the largest national Hispanic civil rights and advocacy organization in the U.S. and is dedicated to improving opportunities for Hispanic Americans. I oversee NCLR's research, policy analysis, and advocacy on issues critical to building financial security in Latino communities, such as homeownership, consumer credit, auto lending, and financial counseling. Prior to coming to NCLR, I worked for a large community development corporation (CDC) in Cleveland, Ohio, as a Project Manager developing affordable housing. During my time at NCLR, I have published on a number of housing issues important to the Latino community, including *American Dream to American Reality: Creating a Fair Housing System that Works for Latinos* and *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market*. In addition, I have served as an expert witness before this committee, the U.S. Senate Committee on Banking, Housing, and Urban Affairs, and the Board of Governors of the Federal Reserve. I would like to thank Chairman Frank and Ranking Member Bachus for inviting us to participate in this timely hearing. I would also like to thank Congressman Hinojosa for his overall leadership, especially in the area of financial literacy.

For more than two decades, NCLR has been building its institutional knowledge through research, analysis, and direct service of how Latinos interact with financial markets and how that interaction affects their communities. In 2005, NCLR released a report, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*, which examined financial education programs targeting Hispanic consumers. We found that most materials are overly broad and do not effectively change consumer behavior or decision-making or help families attain assets. However, through our work as a funder and developer of housing counseling, we have learned that one-on-one counseling to low-income families is a meaningful and effective tool for building both financial knowledge and sustainable wealth. Seeded in 1997, the NCLR Homeownership Network (NHN) consists of 50 community-based counseling providers and works with more than 30,000 families annually. NCLR understands what it takes to help marginalized communities build and maintain financial security through asset ownership.

Today's hearing is timely. Rising foreclosure rates and credit card delinquencies are laying bare the cracks in our financial system. NCLR has long pointed to the systemic flaws in home, credit card, and auto markets which leave borrowers vulnerable to predatory lending. While not a substitute for strong protections and lender accountability, access to individual financial counseling can help families make better decisions and avoid common traps. Consumers need access to the same kind of individualized advice and financial planning services that affluent families rely on to make their financial decisions.

In my remarks today, I will discuss the challenges that Latinos face in financial markets and the role of financial counseling. I will conclude with a set of recommendations for the committee's consideration.

**Background**

A recent study using data from the Federal Reserve Bank 2004 Survey of Consumer Finance (SCF) revealed that despite significant improvement, the ratio of wealth between non-Hispanic

Whites and Hispanics remains a staggering 9:1. According to a Pew Hispanic Center survey, more than 35% of Latinos surveyed reported that they do not have a bank account, and that number rises to 42% for foreign-born Latinos.[1] In fact, nearly every indicator of wealth shows severe and persistent disparities between Hispanic and White families. Lack of basic bank accounts, however, does not translate into a lack of demand for banking services Where mainstream providers fail to meet the needs of the underbanked, fringe financial providers and abusive lenders have moved in to fill the gap. Consequently, Latinos often pay too much for check-cashing, remittances, auto loans, home loans, and other financial services and products, and many are enticed into predatory or high-cost loans with exorbitant interest rates or fees.[2]

All Americans rely on financial products to help them buy their homes and otherwise build wealth and financial security. Access to safe and affordable credit is a critical means to this end for Latinos as they more fully integrate into the mainstream financial system and work to gain access to the American middle class. Yet, clear disparities exist between the quantity and quality of financial products made available to low-income and minority consumers. These disparities perpetuate the wealth gap between minority and White households. Latino, immigrant, and other underserved borrowers need greater access to timely and relevant information that will inform and empower their decision-making.

Financial counseling can help connect marginalized consumers to the safe and affordable financial products they demand. Unfortunately, the financial planning and advice market is largely driven by the amount of wealth the client already has. The structure of the market – where planners rely on commission or fees – does not lend itself to serving low-income families. Unless this structure changes, we will not be able to narrow the wealth gap.

**The Case for Financial Counseling**

In recent years, the goal of increasing the nation's collective financial literacy has gained prominence among policymakers. However, despite the efforts of many, Latinos and other low-income, low-wealth families lack access to quality financial information. NCLR analyzed a broad range of initiatives and programmatic efforts under way in the field of financial education in a report entitled *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*. The report found that most financial education programs consist of broad, generic information in the form of classroom-style lectures, workbooks, Internet-based seminars, and financial literacy outreach campaigns.[3] Although these efforts are important for increasing awareness, there is no evidence to suggest that these methods are helping low-income Latino families accumulate assets and build wealth. On the other hand, in an evaluation of the NHN by the Morrison Institute for Public Policy at Arizona State University, the individualized

[1] Pew Hispanic Center/Kaiser Family Foundation, 2002 National Survey of Latinos. Washington, DC, 2002.
[2] NCLR has published several reports, public statements, and testimony on each of these issues. Reports are available at www.nclr.org. Key reports include: Beatriz Ibarra and Eric Rodriguez, *Latino Credit Card Use: Debt Trap or Ticket to Prosperity?* National Council of La Raza, 2007; *Saving Homes, Saving Communities: Hispanic Brokers Speak Out on Hispanic Homeownership.* National Council of La Raza and National Association of Hispanic Real Estate Professionals, 2007; and Janis Bowdler, *Jeopardizing Hispanic Homeownership: Predatory Practices in the Homebuying Market.* National Council of La Raza, 2005.
[3] Brenda Muñiz, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*. National Council of La Raza, 2004.

advice provided by homeownership counselors was cited by counseling participants as a determining factor in their ability to qualify for a home loan, more than downpayment assistance. This suggests that one-on-one counseling is a meaningful and effective tool for both building financial knowledge and improving wealth levels.

Each year, approximately 80% of families who seek advice through the NHN are not ready to buy a home within a six-month period. Counselors develop work plans, some of which may extend beyond two years. This, coupled with high turnout rates for complementary programs such as free tax preparation and Individual Development Accounts, demonstrates a strong demand for personalized financial advice. However, most families who are middle-income or below cannot afford good-quality financial planning. Without a community-based program that delivers free or low-cost financial planning services, many families fall through the cracks, becoming targets of fraud, push marketing schemes, and predatory lending.

Below we discuss three specific barriers that prevent average families from accessing financial counseling.

- **The lack of affordable, certified financial counselors in the marketplace.** Many financial counselors work for a commission and are more inclined to cater to individuals with large asset portfolios. Since financial planners typically earn money by managing their clients' assets, serving low-income clients with little or no assets means earning significantly less income. Fee-only financial planners are more affordable, but their fees are often too high for low-income families. The going rate of $200 an hour, for example can be prohibitive for a family of modest means.

- **The lack of explicit economic incentives for low-income families to connect to financial advisors and counselors.** For low-income families, there are no direct financial incentives to purchase the services of a financial planner. Little is being done to facilitate access to certified financial counselors or to create incentives for low-income families to visit with them. In contrast, upper-income families who itemize their income taxes can claim the expense of the financial planner as a deduction.

- **The lack of federal resources for targeted, community-based, one-on-one financial counseling programs.** Although the demand for financial counseling is high, there is little corresponding investment by the government to support local, community-based financial counseling programs. By some estimates, approximately ten million U.S. households and 22 million families do not have a basic checking or savings account.[4] Yet, the government invested $24.4 million in Individual Development Account (IDA) programs in 2007 to encourage savings among low-income families. Many low-income households are in need of free tax preparation services at the community level, but the government invested only $9 million in matching grants to low-income taxpayer clinics

[4] Anne Stuhldreher and Jennifer Tescher, *Breaking the Savings Barrier: How the Federal Government can Build an Inclusive Financial System*. Washington, DC: New America Foundation, February 2005. (Citing Ana M. Aizcorbe, Arthur B. Kennickell, and Kevin B. Moore, 2003). Also see "Recent Changes in U.S. Family Finances: Evidence from the 1998 and 2001 Survey of Consumer Finance," *Federal Reserve Bulletin*. Washington, DC: The Federal Reserve Board.

in 2008. While support for the U.S. Department of Housing and Urban Development (HUD) Housing Counseling Program has been increasing,[5] the demand for housing counseling services outpaces the funding available. Millions more are in need of one-on-one financial counseling services, but the government invests zero dollars in such programs while providing more than $350 billion in tax benefits to upper-income workers to save and invest their money.[6]

Based on the clear demand demonstrated by low-income families, and the barriers in the financial planning market, NCLR has advocated for the creation of a new community-based financial counseling program that would complement and supplement existing housing counseling, IDA, and tax preparation programs. Financial counseling could prove to be a powerful asset development tool when attached to such services. Moreover, low-income and low-wealth communities are the most likely to become victims of misinformation. According to a Federal Trade Commission (FTC) survey, Hispanics are more than twice as likely as Whites to be victims of fraud (14.3% compared to 6.4%, respectively). In fact, many scammers pose as "certified" counselors or consultants in efforts to push their predatory product.[7] We must establish a strong network of reliable, independent financial advisors who can drive fraud and scams out of low-income communities.

**Recommendations**

Low- and moderate-income families have the same need for personalized financial advice as affluent families. However, there is a severe shortage in affordable financial planning services that could meet this need. Moreover, while those lacking effective relationships with banks and other low-income communities exhibit high demand for this service, we expect that victims of foreclosure will also need one-on-one advice to help them restore their financial security. To ensure that all families have an opportunity to improve their long-term economic status, NCLR recommends:

- **Create new incentives for low-income families.** Congress should create a refundable federal income tax credit for low-income families to cover the cost of obtaining one-on-one financial counseling services. Policymakers could determine the amount of the tax credit and require that recipients of the credit consult with a financial counselor who is certified by a nationally recognized financial planning association. Additionally, policymakers should ensure that *all* tax filers are eligible for the tax credit.

- **Create an infrastructure of community-based financial counselors.** Congress should authorize a program through the U.S. Department of Health and Human Services or HUD which would manage grants to community-based organizations to support financial counseling services and conduct program evaluations. Community-based organizations would use the resources to hire and train financial counselors, develop or obtain the

[5] For fiscal year 2008, Congress appropriated $50 million for the HUD Housing Counseling Program and $180 million for foreclosure prevention counseling.
[6] Lillian G. Woo, F. William Schweke, and David E. Buchholz, *Hidden in Plain Sight: A Look at the $335 Billion Federal Asset-Building Budget*. Corporation for Enterprise Development, 2004.
[7] Common scams targeting Latino and other minority and low-income communities include foreclosure rescue "consultants," credit repair schemes, and affinity credit cards.

necessary software to track client success, and build the capacity to expand the services they currently provide to include financial counseling services.

- **Increase funds for low-income tax preparation sites to support a financial counseling component.** Congress should increase federal funding by $50 million to support the expansion of important Internal Revenue Service initiatives aimed at low-income families, such as outreach regarding the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The receipt of tax credits presents an opportunity for low-income families to connect to financial services and products and learn about investments and savings. Linking tax preparation with savings and/or investment tools, such as IDAs, would increase asset-building knowledge.

- **Help eliminate financial scams.** There is evidence of frauds and predatory scams in nearly every lending market – home, auto, consumer credit, and insurance. Unfortunately, many scams go unprosecuted. The FTC relies on victims reporting the scam, and then waits for a pattern to appear before taking action. Many state and local authorities do not have the resources to pursue financial scams. Congress should hold hearings and order research and investigations to determine how the regulatory structure can be changed to better protect borrowers.

Access to independent financial counseling should also be a part of any retirement savings package to enable workers to develop and leverage assets effectively. Policymakers can take meaningful steps to close the wealth gap and increase asset ownership among Latinos. Financial counseling may be the linchpin of this strategy.

For release on delivery
10:00 a.m. EDT
April 15, 2008

Statement of

Sandra F. Braunstein

Director, Division of Consumer and Community Affairs

Board of Governors of the Federal Reserve System

before the

Committee on Financial Services

U.S. House of Representatives

April 15, 2008

**Introduction**

Chairman Frank, Ranking Member Bachus, and members of the Committee, I appreciate the opportunity to be here today to discuss the importance of financial literacy, a topic that is particularly relevant in light of the turmoil in the mortgage market. This episode is challenging for financial institutions, communities, and families and has underscored how essential well-informed, financially savvy consumers can help ensure the financial well-being of individual households and the overall economy. My remarks today will address why financial education is vital to an efficient consumer financial marketplace, the challenges and opportunities for policymakers, regulators, and educators surrounding the design and delivery of financial education, and the Federal Reserve's ongoing commitment to financial education efforts.

**The Current Financial Services Marketplace**

As we all know, today's financial services industry is extremely diverse and complex. The application of new technologies, policies, and financial innovations has contributed to the development of a robust and highly competitive consumer finance marketplace. Consumers can choose among a wide variety of services and providers when conducting financial transactions that were once primarily offered through depository institutions, whether it is cashing a check or obtaining a mortgage loan.

These forces have also dramatically changed how financial services are marketed and delivered. Consumers no longer have to make a trip to a bank and wait a few weeks for a decision regarding a loan. Direct mail campaigns bring offers of credit to consumers' doors, and in some cases, credit can be applied for and granted by telephone or via the Internet. Credit scoring technologies have greatly streamlined consumer underwriting processes that have improved efficiencies in evaluating credit requests, from mortgage underwriting to credit granted

immediately at retail registers. In addition, credit scoring technologies have changed the way credit is priced, with the cost of credit correlated with the risk a borrower represents as quantified by their credit score. This process of pricing has enabled lenders and investors to more closely align their risk tolerance with return requirements, which has resulted in the development of new credit markets for higher-risk borrowers.

Certainly, these developments have increased access to credit, particularly for those consumers who may not have been considered creditworthy 20 years ago. With these advancements, consumers can more readily establish a credit history. However, the rapid growth in the availability of credit has also brought increased responsibilities and risk to consumers, which makes it critical that consumers are well-informed about their personal financial circumstances and the products they contract for. Consumers must also be vigilant in shopping for their financial services. And, to be effective in evaluating products, they must be equipped with the knowledge required to ask the right questions, and to turn down a product that is not well-suited to their needs, especially a credit product. Consequently, the level of competition and complexity in today's consumer financial marketplace highlights the need for effective financial education to help consumers evaluate and choose products that advance their financial well-being, not impede it.

The magnitude of mortgage delinquencies and foreclosures in recent months has underscored the importance of consumer understanding of financial products. A variety of factors contributed to the problems in the subprime mortgage market that financial education alone cannot address, and the need to assist homeowners in financial distress has clearly mobilized efforts to mitigate the devastating impact that mortgage delinquency has on consumers.

Government agencies at the local, state, and national levels, financial institutions, and nonprofit organizations are collaborating to develop strategies to assist troubled borrowers and minimize foreclosures. The focus of these efforts range from raising consumers' awareness of the resources that are available to them to working with servicers, lenders, and community organizations to restructure borrowers' mortgages into sustainable loans. Significantly, many of these initiatives have financial counseling and education as a core component. This fundamental element is critical to helping borrowers understand their financial situation and identifying the most viable solution for each borrower's circumstances.

Current market conditions make us attuned to the importance of financial counseling and education as they relate to managing mortgage credit, but mortgage delinquency is only one of the many scenarios that can precipitate a personal financial crisis. More often, households experience financial distress as the result of the loss of a job, a medical crisis, or a natural disaster. Financial education is an important tool for helping consumers to manage their personal finances and reduce their vulnerability to such unanticipated financial shocks.

**Challenges of Designing and Delivering Financial Education**

As policymakers and educators know, designing and delivering effective financial education presents numerous challenges. Among the most significant is that financial counseling and education are very resource-and-time intensive because of the individual nature of personal finances and the differing base of knowledge of consumers. In addition, there is a very broad range of potential audiences, and their educational and informational needs vary greatly, a challenge that is compounded by the rapid development of products targeted to specific market segments. This often requires the development of specialized programs to reach targeted audiences based on demographics, such as youth, young adults, or immigrant populations, or

based on a consumer's stage in the financial lifecycle, such as preparing to fund higher education, buy a home, or prepare for retirement. Oftentimes, individuals in need of financial education may not have a fundamental understanding of financial management concepts, such as budgeting, saving, and credit. Financial education efforts may also be constrained by gaps in math and reading literacy, which impede comprehension of fundamental financial concepts.

Another challenge to delivering financial education is identifying the venue and delivery channels that facilitate consumers' participation in a program, as the demands of work and home often leave little time to give to such training programs. Language and cultural differences can also present challenges in reaching consumers who can benefit from financial education, particularly immigrant communities. Financial educators have worked diligently to design curricula to overcome these challenges and to present materials in a manner that suits a broad range of learning styles and preferences, from traditional classroom-style courses to telephone counseling and computer-based modules. As technologies and access continue to improve, financial educators have the opportunity to develop new strategies for delivering more effective programs.

The challenge of delivering financial education to youth can be as vexing as providing training programs to adults. One obvious solution would be to incorporate financial education into school curricula, which eight states have done by requiring that a course in personal finance be taken before graduating from high school. However, primary and secondary school teachers confront limited time and great demands in meeting current teaching requirements. And teachers themselves have expressed concern about their qualifications for providing financial education. To help address these challenges, many of the Federal Reserve Banks offer teaching materials on financial and economic education targeted to youth, as well as offer training sessions to teachers.

The workplace is another venue that offers promise for improving financial education. The Federal Reserve Board recognizes this opportunity. We regularly host seminars during the work day and encourage staff to take advantage of these sessions to learn more about benefits and retirement investment options.

Clearly, to be effective, counseling and education programs require trained instructors who have an understanding of the range of financial products and providers, and, in today's dynamic financial services marketplace, curricula must be regularly updated to remain relevant. Ideally, financial counseling would be available to consumers near the time at which they are making an important financial decision, such as whether to buy a home.

Despite these and the many other challenges, informed financial decisionmaking is vital for the healthy functioning of financial markets, in part because it stimulates competition that leads to improved products at better prices for consumers. In addition, research has demonstrated that financial literacy can lead to better outcomes for individual consumers. For example, a study of 14,000 recipients of credit counseling found that counseling had a positive effect on creditworthiness, especially for individuals with the lowest credit scores.[1] Another paper determined that new or recently delinquent credit cardholders were more likely to pay on time and to have lower revolving balances after receiving on-line instruction in credit management.[2] A study on consumer creditworthiness and consumer literacy concluded that financial knowledge is the single best predictor of behaviors, such as budgeting, saving, and

[1] Gregory Elliehausen, E. Christopher Lundquist, Michael Staten (2003), "The Impact of Credit Counseling on Subsequent Borrower Credit Usage and Payment Behavior" (January), www.chicagofed.org/cedric/files/2005_conf_paper_session3_todd.pdf.

[2] Kimberly Gartner and Richard Todd (2005), "Effectiveness of Online 'Early Intervention' Financial Education for Credit Cardholders" (July), www.chicagofed.org/cedric/files/2005_conf_paper_session3_todd.pdf.

shopping responsibly, which translated into positive outcomes on credit bureau reports.[3] With these benefits and the implications they have for the broader economy, continued efforts in financial literacy are highly desirable. As a result, policymakers, regulators, researchers, and nonprofit organizations have examined their roles in financial education efforts and have worked to expand their contributions to helping consumers become better informed about managing their personal finances. Now let me talk briefly about the Federal Reserve's efforts in the financial education arena.

**Federal Reserve System's Financial Education Efforts**

The Federal Reserve has a long-standing commitment to providing information and education to help consumers make informed financial decisions.[4] Financial educational products and programs are offered by the Board and each of the twelve regional Federal Reserve Banks. Our services range from providing consumer educational resources to engaging in financial education collaborations at the national, regional, and local levels. We also conduct and promote research into consumer behavior and the efficacy of financial education programs to help inform policy and program design. We have established a centralized, dedicated website to improve accessibility to the financial and economic education resources offered by the Federal Reserve System at www.federalreserveeducation.org. I will provide examples of ways in which we have strategically contributed to financial education in each of these areas.

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[3] Marsha Courchane and Peter Zorn (2005), "Consumer Literacy and Creditworthiness" www.chicagofed.org/cedric/files/2005_conf_paper_session3_courchane.pdf.

[4] For a comprehensive listing of financial and economic education resources offered by the Federal Reserve System, see testimony on financial literacy by Chairman Ben Bernanke before the Committee on Banking, Housing, and Urban Affairs of the United States Senate May 23, 2006 at www.federalreserve.gov/newsevents/testimony/bernanke20060523a.htm.

***Consumer Education Information Resources***

The Federal Reserve has a long track record of providing consumer education publications that offer consumers accurate and objective information about financial products, as well as their rights under consumer protection laws and regulations. Our publications offer comprehensive information on the terminology of various products and questions to ask when shopping for financial services. For example, in relation to mortgage loans, we offer educational materials that address virtually all aspects of a mortgage transaction, from choosing a mortgage to understanding settlement costs to mortgage refinancing. To further help consumers in choosing a mortgage loan, we have developed a mortgage comparison calculator that is accessible on our website. This interactive tool allows consumers to compare the monthly payments and the equity accrual for several kinds of fixed and adjustable-rate mortgages. Most recently, we have posted a list of agencies and nonprofit organizations that provide foreclosure resources to homeowners struggling with their mortgages. We also offer a full range of resources on credit cards, deposit accounts, and other financial services. All of our consumer education resources are available on our website, and most are available in Spanish.

Similarly, each of the Federal Reserve Banks develops financial education materials that are responsive to their local and regional markets' information needs. For example, the Federal Reserve Bank of Atlanta offers "Katrina's Classroom: Financial Lessons from a Hurricane," an on-line curriculum for high-school students on the importance of financial planning and preparedness. The Federal Reserve Bank of Boston has established a dedicated website at www.theinformedhomebuyer.org to help consumers access regional and national resources related to mortgage delinquency and foreclosures.

***Leadership in Financial Education Collaborations***

The Federal Reserve System also commits significant resources to providing leadership and technical assistance to financial education initiatives. Here in Washington, Board staff serve in advisory positions to the Jump$tart Coalition, America Saves campaign, and National Council on Economic Education. In addition, the Federal Reserve is a member of the Financial Literacy and Education Commission, with staff serving on two of the commission's three working groups--the National Strategy Working Group and the Mymoney.gov Website Working Group.

Similarly, the Federal Reserve Banks work with educators and community organizations in their Districts to further financial education. Many of the Reserve Banks partner with organizations to provide "teach the teacher" and "train the trainer" programs to help ensure that financial and economic educators have the knowledge and information resources they need to be effective in their roles. The Federal Reserve Bank of St. Louis is an active partner in the Gateway to Financial Fitness program, a 12-week general financial education program targeted at lower-income consumers. In addition, the Federal Reserve Bank of Boston provides training and volunteers to work with Volunteer Income Tax Assistance sites in the region to help lower-income individuals file their taxes and apply for tax refunds through the Earned Income Tax Credit program. In San Francisco, the Reserve Bank is engaged in a broad-based collaboration that provides financial education and other support to help bring the city's unbanked into the financial mainstream.

The Federal Reserve System also works to increase awareness of the importance of financial literacy. For example, the Federal Reserve Bank of Chicago hosts a "MoneySmart Week" throughout its District for each week of April. The Reserve Bank collaborates with local organizations to host a series of free classes and activities designed to help consumers better

manage their personal finances. The Federal Reserve System also works to improve the infrastructure for financial education networks and resources. In recent years, staff of the Federal Reserve Banks of Minneapolis and Kansas City were integral to establishing statewide chapters of Jump$tart in Montana and Nebraska, while the Federal Reserve Bank of Cleveland has led efforts to establish regional financial education coalitions to leverage resources and share best practices.

Over the last year, the Federal Reserve System has leveraged its numerous financial education partnerships to sponsor conferences and roundtables about financial education and counseling for communities working to support borrowers experiencing distress from their mortgage situations. These forums have been instrumental in sharing information resources and understanding and responding to borrowers' needs.

***Research on Financial Education Programs***

Given the scarce resources available to provide financial education, it is important to ensure that they are being used effectively. Accordingly, the Federal Reserve is committed to conducting and promoting research on the efficacy of financial education programs. Our biennial Community Affairs Research Conference is a regular source for generating and presenting the most recent research on financial education programs. In addition, the Federal Reserve Bank of Philadelphia is engaged in a research collaboration to conduct a long-term study of the effectiveness of pre-purchase homeownership counseling and its effect on consumer credit behavior and homeownership. In recent months, the Federal Reserve Bank of Boston has published the results of a study examining the characteristics of individuals who self-select into financial education programs.[5]

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[5] Stephan Meier and Charles Sprenger, (2007) "Selection into Financial Literacy Programs: Evidence from a Field Study, (No. 07-05), November 2007, http://www.bos.frb.org/economic/ppdp/2007/ppdp0705.htm.

In addition to our various research efforts, we have also gained valuable insight into consumers' information needs and shopping behaviors directly from consumers. Over the last several years, the Board has engaged in extensive consumer testing of disclosures for privacy notices, credit cards, and mortgages in conjunction with our rule-writing efforts for these products. The information we have gained from these sessions has helped us to better understand how consumers shop for financial products and services and what information they need to make their decisions. Our experiences with consumer testing underscore the importance of providing content that consumers need and of refraining from emphasizing form over substance. For example, focusing on the length of disclosures could limit the ability to provide information essential to consumers' decisionmaking process. Such feedback gained through consumer testing can also inform the design of financial education programs.

**Conclusion**

In closing, I would like to emphasize that the Federal Reserve will continue to maintain its commitment to financial education. Financial education is essential to helping consumers make well-informed and beneficial decisions that enhance their financial positions and enhance efficiencies in the consumer financial marketplace. Financially educated consumers are an important first line of defense in well-functioning markets. At the same time, it is important to recognize that financial education is not a panacea, and that there remains a need for effective regulation that is responsive to market evolutions to ensure that consumers are protected against abusive and fraudulent practices by unscrupulous players.

Interest in consumer financial education continues to grow, at both the national and international level. This brings the promise of new resources and ideas that can help overcome the challenges of developing and delivering effective financial education to diverse audiences

with diverse needs. This increased commitment can also help to improve coordination and to leverage resources that will improve efficiencies and spur innovation in the field. I remain optimistic that this dedication will lead to improved financial literacy outcomes that will benefit consumers, communities, and the broader economy.




**Consumer Federation of America**
1620 I Street, N.W., Suite 200 * Washington, DC 20006

**Testimony of**

**Stephen Brobeck**
**Executive Director**
**Consumer Federation of America**

**Before**

**The U.S. House of Representatives**
**Committee on Financial Services**

**On**

# Improving Financial Literacy

**April 15, 2008**

I am Stephen Brobeck, executive director of the Consumer Federation of America. CFA is a non-profit association of 300 organizations that, since 1968, has sought to advance the consumer interest through research, education, and advocacy. For three decades, CFA, and I personally, have sought to increase financial literacy. We commend you, Mr. Chairman, for organizing these hearings and for providing us with the opportunity to recommend ways the federal government could improve consumer decision-making.

You have asked us to address several topics related to financial literacy. I had the opportunity to do so before a subcommittee of this Committee in September 2006 and also before different Senate committees in May 2006 and April 2007. My testimony in these three hearings is still relevant to today's hearing, specifically:

- There has been a growing need for dramatic improvements in financial literacy because of the erosion of economic and social security and because of the emergence of a highly complex, dynamic, and risky financial services marketplace. At greatest risk are low- and moderate-income households with little or no discretionary income and modest educations that failed to equip them to make informed decisions about personal financial matters.

- The most effective financial literacy programs produce desired behavioral change -- not just increased knowledge -- and have the capacity to reach a significant proportion of those Americans making less than optimal financial decisions. Unfortunately, we have no idea whether the vast majority of financial education initiatives work because their impacts have not been carefully studied. And even if many are effective, these programs lack influence because they are uneven and fragmented, in part because there is no coherent national financial education strategy or effective leadership for the implementation of this strategy. Such a strategy must recognize that knowledge alone is not enough to ensure effective management of financial resources; consumers must value this management enough to learn and practice it, and there must be accessible opportunities in the marketplace for utilizing these skills. Such opportunities include access to financial products offering good value and to affordable and effective advice for utilizing these complex and often risky products.

- For decades, federal agencies now participating in the Financial Literacy and Education Commission have played an important role in informing and educating consumers about personal financial challenges and opportunities. On financial literacy initiatives involving my organization, federal agencies have made significant contributions to strategic planning, consumer message development, and message dissemination. More recently, so has FLEC itself, through providing greater coordination of federal agency efforts, initiating productive public-private partnerships, providing a useful point of contact for consumers, and publishing comprehensive information about consumer literacy programs. However, we also agree with the findings of the GAO's thoroughly researched and well-reasoned 2007 assessment of FLEC, which concluded that the Commission has yet to develop an effective national strategy for significantly advancing financial literacy.

- Financial education, even those programs that are highly effective, are insufficient for ensuring effective consumer decision-making in the financial services marketplace. This marketplace is too complex and dynamic, and much of the nation's population too poorly educated, for any financial literacy efforts to succeed on their own without effective regulation. Even well-educated, financially sophisticated Americans have difficulty understanding and evaluating complex mortgage, investment, and life insurance products. Given the financial stakes for consumers, only government can ensure that financial services products meet certain minimum standards and that consumers have access to important information about these products.

These points have been elaborated in the three previous testimonies. What I would like to do in today's testimony is suggest two specific ways that this Committee and Congress could usefully advance consumer literacy and informed consumer decision-making.

**Support a National Initiative to Encourage and Assist Americans to Assess and Improve Their Financial Condition**

In earlier congressional testimony, we suggested that Congress consider asking FLEC to fully develop specific financial literacy strategies to achieve significant and measurable improvement in consumer decision-making. One such strategy with much promise is encouragement of all Americans to periodically estimate their net personal wealth. As financial educators as diverse as columnist Michelle Singletary and the Financial Planning Association have concluded, awareness of net personal assets is an important motivator for better money management, debt management, and savings accumulation. People who have a fairly accurate idea of their net wealth are more likely to spend money carefully, monitor their finances, live within their financial means, and patiently accumulate wealth through saving for emergencies, education, homeownership, and retirement and through repayment of consumer debts. And, if Americans were more aware of their net personal wealth, they would be more receptive to financial and information programs that helped them monitor, conserve, and accumulate financial resources.

This specific strategy has been incorporated into America Saves Week, a national effort involving hundreds of organizations that encourages and assists Americans to assess their savings progress and make needed improvements. The Week is coordinated by America Saves, a nationwide campaign of some 1,000 organizations to promote and assist low- and moderate-income household savings, and by the American Savings and Education Council, a national coalition of government agencies, large employers, financial institutions, and national non-profits to promote and assist workplace and retirement saving. During America Saves Week 2008, held during the last week in February, more than 80 national groups (see Appendix A), including many members of FLEC, and hundreds of state and local organizations promoted savings, including encouraging individuals to use the savings tools on the new America Saves Week website (www.americasavesweek.org) (see Appendix B). These tools include a savings quiz, savings checklist, personal wealth estimator, Ballpark Estimate of needed retirement

savings, and monthly emailed savings messages. In the next several years, ASEC and America Saves aim to involve thousands of organizations who would persuade millions of Americans to assess and improve their financial condition. In doing so, the Week could provide all financial educators with the opportunity to enhance and link their individual efforts.

Congress could provide invaluable support to America Saves Week in two important ways. First, it could encourage all members of FLEC, especially Treasury, to participate more actively. Such participation could productively emulate the organization of state and local Week activities by dozens of U.S.D.A. Cooperative Extension Service offices, support for extensive Military Saves Week activities by the Department of Defense, and employee education by the Federal Reserve Board. It could even include, during the next administration, encouraging the president to make personal financial assessment and improvement, using the Week, a priority in order to improve the economic condition of American families and the whole country.

Second, members of Congress could encourage organizations and individuals in their districts to participate in the Week. This encouragement could take the form of press communications, individual contacts with organizations, and recruitment of local organizers to plan Week activities. ASEC and America Saves are willing to support these activities. For example, if a member wished to sponsor a district meeting of organizations with a potential interest in participating in America Saves Week, our two organizations would be willing to help organize and staff such a meeting and any subsequent planning for the Week.

**Support Needed Financial Disclosures to Consumers**

Congress also can improve financial literacy through greater support for improved financial product disclosures. Even consumers who do not understand the financial services marketplace well increase their understanding of specific products, and ability to purchase and use them wisely, if they have greater access to important information about these products.

That was the conclusion, for example, of a recent Federal Trade Commission study of consumer knowledge about specific mortgage products using traditional and improved disclosures. Tested using traditional disclosures, many participating consumers could not correctly identify key characteristics of a loan such as loan amount (c. 50%), total monthly payment (20%), annual percentage rate (c. 20%), total settlement charges (c. 25%), and charges for optional credit insurance (c. 75%). But tested with new and improved disclosures, consumer understanding of a mortgage loan improved substantially -- by 66 percentage points for identifying the total amount of up-front charges, by 37 percentage points for knowing the amount borrowed, by 24 percentage points for recognizing when a prepayment penalty would be assessed, by 16 percentage points for identifying the APR, and by 13 percentage points for understanding which of two loans was less expensive.

Better product disclosures would also improve the financial literacy of credit card users. Behavioral economists have argued that cardholders would be less likely to run up unsustainable balances if monthly statements clearly stated the total interest and fees paid during the past twelve months. Others have suggested that requiring statements to also include the number of

months it would take to pay off the current balance, assuming no new card purchases, would also persuade some cardholders to use plastic more prudently.

If consumers do not have easy access to important information about individual financial products, they benefit far less from financial education. Even if they understand the general differences between complex new nontraditional mortgage loans, without access to information about specific features of these loans, consumers cannot apply general financial knowledge to make sensible product-related decisions. If consumers are denied access to this information, the best advice they can often receive from financial educators is to be extremely skeptical of financial products.

We know that many members of this Committee strongly support improved consumer information disclosures on products such as nontraditional mortgage loans and credit cards. Now that the Federal Reserve Board is considering improved disclosures for both types of products, there has never been a better opportunity to make progress in this area. We urge you to encourage the Fed to require new credit disclosures that would not only assist consumer decision-making but also increase real competition in the financial services marketplace. We also urge you to always consider improved financial product disclosures to be one of the most effective ways to raise the level of financial literacy.

Thank you again for the opportunity to present this testimony.

## Appendix A

### America Saves Week 2008
### List of National Participating Groups

Government Agencies
Federal Citizen Information Center, General Service Information
Federal Deposit Insurance Corporation
Federal Reserve Board
Federal Trade Commission
Internal Revenue Service
Missouri State Employees' Retirement System
Ohio Treasurer of State
Securities and Exchange Commission
Social Security Administration
U.S. Department of Agriculture, Cooperative State, Research, Education and Extension Services
U.S. Department of Defense
Armed Forces Tax Council
Department of the Air Force
Department of the Army
Department of the Navy
U.S. Coast Guard
U.S. Marine Corp
U.S. Department of Labor, Employee Benefits Security Administration
U.S. Department of the Treasury
U.S. Postal Service
Washington Department of Financial Institutions
Washington State Department of Retirement Services
Wisconsin Department of Financial Institutions

Non-Profit Organizations
AARP
American Institute of Certified Public Accountants
360 Degrees of Financial Literacy
American Society of Military Comptrollers
Armed Forces Financial Network
Aspen Institute Initiative on Financial Security
Center for Financial Services Innovation
Consumer Federation of America
Consumer University
CUPA-HR
Employee Benefit Research Institute
Family, Career and Community Leaders of America
FINRA Investor Education Foundation
SaveAndInvest.org
HR Policy Association
InCharge® Education Foundation
International Foundation of Employee Benefit Plans
Jump $tart Coalition for Personal Financial Literacy
Money Management International
National Cooperative Bank
National Council on Economic Education
National Endowment for Financial Education

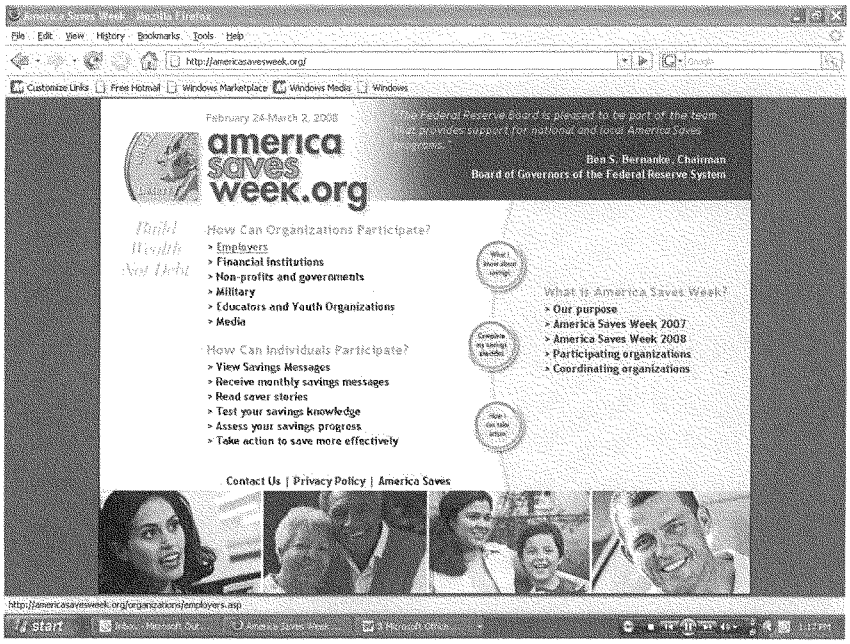
National Foundation for Credit Counseling
National Military Family Association
New America Foundation
North American Securities Administrators Association
Operation Hope
The Retirement Security Project
United Way
Washington Society of CPAs
Women's Institute for a Secure Retirement
WorldatWork

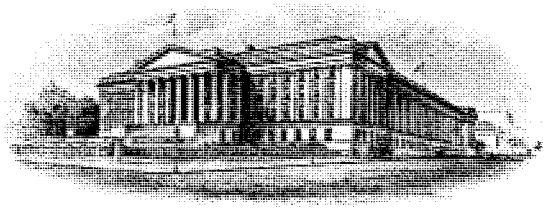
Industry Trade Associations
American Bankers Association
American Council of Life Insurers
American Society of Pension Professionals and Actuaries
Association of Military Banks of America
Consumer Bankers Association
Credit Union National Association
Defense Credit Union Council
Independent Community Bankers of America
Investment Company Institute
National Association of Federal Credit Unions

Companies
American Express Company
Bank of America
Capital One
Capital Research and Management
Citi Foundation
Countrywide Bank
Deseret Mutual Benefit Administrators
Edelman Financial Services, LLC
Fidelity Investments
GlaxoSmithKline
Greenwald & Associates
H&R Block
Hartford Life Insurance Company
Merrill Lynch
MetLife
National City Bank
Prudential Financial
Russell Investments
Segal Company
TIAA-CREF
Towers Perrin
Wachovia
Washington Mutual
Wells Fargo Bank, NA

Appendix B

AmericaSavesWeek.org


File Edit View History Bookmarks Tools Help
http://americasavesweek.org/
Customize Links Free Hotmail Windows Marketplace Windows Media Windows
February 24-March 2, 2008
america saves week.org
The Federal Reserve Board is pleased to be part of the team that provides support for national and local America Saves programs.
Ben S. Bernanke, Chairman
Board of Governors of the Federal Reserve System
Build Wealth Not Debt
How Can Organizations Participate?
> Employers
> Financial institutions
> Non-profits and governments
> Military
> Educators and Youth Organizations
> Media
How Can Individuals Participate?
> View Savings Messages
> Receive monthly savings messages
> Read saver stories
> Test your savings knowledge
> Assess your savings progress
> Take action to save more effectively
What is America Saves Week?
> Our purpose
> America Saves Week 2007
> America Saves Week 2008
> Participating organizations
> Coordinating organizations
Contact Us | Privacy Policy | America Saves
http://americasavesweek.org/organizations/employers.asp
start



# U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

**EMBARGOED UNTIL** 10 a.m. (EDT), April 15, 2008
**CONTACT** Jennifer Zuccarelli, (202) 622-8657

## TESTIMONY OF U.S. TREASURER ANNA ESCOBEDO CABRAL BEFORE THE HOUSE COMMITTEE ON FINANCIAL SERVICES

**WASHINGTON**- Good morning. Thank you, Chairman (Barney) Frank. I want to thank you Ranking Member (Spencer) Bachus, and the members of the committee for this opportunity to appear today.

Also, I would like to thank the Committee and the House for their leadership on financial literacy, including the Congressional resolution declaring April as Financial Literacy Month. I commend you for focusing a national spotlight on this issue.

The attention is timely. Today, many Americans are struggling – we have young adults struggling with debt, families struggling to understand the terms of their mortgages, and older Americans struggling with retirement issues. These are complex problems and there are no simple solutions. But what we can do to make a difference – and what is greatly needed in this country – is a little preventative medicine. That is, to teach *all* Americans how to make smart, sound financial choices.

During this financial literacy month, it is appropriate that we step back, assess our efforts, and enhance our financial literacy outreach. But be assured, our assessment and promotion of financial literacy doesn't begin on the 1st and end on the 30th of April. It is a 365-day effort every year.

During my term in office as Treasurer, I have traveled across the country from the Bay Area to the Boroughs of New York to cities and towns in between spreading the financial literacy message to as many Americans as I can. This is more than just a message to me. I am the daughter of farm workers who grew up in communities where being unbanked was common, where saving for college was a rarity, and where financial education was oftentimes nonexistent. So for me, promoting financial literacy isn't just good policy. It's personal.

The President and Secretary Paulson are equally committed to their beliefs in the value of financial literacy. The President's new USA Freedom Corps Financial Literacy Volunteer Initiative, established just last month, provided more proof of this commitment. This initiative will encourage everyday Americans to volunteer to teach financial education in their communities.

I want to talk about three ways that we are addressing financial literacy. The most recent of these efforts is an advisory group created by the President.

**The President's Advisory Council**

The President's Advisory Council was launched on January 22, 2008. The Council is comprised mostly of financial education leaders from the private sector, with one state government representative. It is chaired by Charles Schwab.

This private-sector group, in addition to the federal efforts of the Financial Literacy and Education Commission, will increase the level of our nation's resources dedicated to financial literacy. To ensure close coordination with the Financial Literacy and Education Commission, the Council recently named a liaison to the Commission who will attend Commission meetings and report on them to the Council.

**The Financial Literacy and Education Commission**

An abundance of our financial literacy efforts are through the Financial Literacy and Education Commission. This 20-agency group was established by the Fair and Accurate Credit Transactions (FACT) Act of 2003. The FACT Act named the Secretary of the Treasury as chair of the Commission and gave the Commission and Treasury four mandates: a Web site, a hotline, a multimedia campaign and a national strategy.

I am pleased to provide progress on each of these projects.

1. Web Site

   In October 2004, the Commission launched MyMoney.gov, a Web site designed to be a one-stop shop for federal financial education information. The Website is available in English and Spanish and is operated by the General Services Administration (GSA). It is organized intuitively by topic rather than by agency. Web site topics include "Paying for Education," "Saving and Investing," "Home Ownership," "Privacy," and "Frauds and Scams."

   MyMoney.gov also provides links to financial education grants offered by different Commission member agencies. The site has 402 links and has had more than 2 million hits. Visitors can access an interactive, instructional quiz on financial literacy, view a public service announcement promoting MyMoney.gov and get information on the activities of the Commission.

   The Commission works to ensure that the topics are timely and relevant. For example, during hurricane season it features information on how to financially prepare for a weather-related emergency. More recently, the Commission has added a link explaining the economic stimulus payments, and the front-page features information on how to avoid foreclosure rescue scams.

2. Toll Free Hotline

   In October 2004, the Commission also launched a toll-free hotline called 1-888-MyMoney. Operated by the GSA, the hotline is available in English and Spanish and permits callers to order a free MyMoney toolkit. The English language toolkit contains eight federal publications covering topics from savings to investing to understanding the Social Security system. The Spanish language toolkit has seven publications. Since its launch in October 2004, the MyMoney hotline has received more than 20,200 calls.

3. Multimedia Campaign

   The Treasury is working with the Ad Council on the production of a campaign that will address the topic of credit literacy, emphasizing the impact of one's credit score. The project has progressed through the research, focus group, and creative stages, and is now in production. The campaign is scheduled to launch in the summer of 2008. It will feature television spots, radio spots, and a new Web site.

4. National Strategy

The FACT Act also required the Commission to develop a national strategy for financial literacy. In April of 2006, the Commission released *Taking Ownership of the Future: The National Strategy for Financial Literacy*. The *Strategy* is a comprehensive blueprint for improving financial literacy in America, covering 13 areas of financial education in 13 chapters. Approximately 7,600 copies of the *Strategy* have been distributed, and the *Strategy* has been downloaded an additional 102,860 times.

This month, the Commission submitted its third annual *Strategy for Assuring Financial Empowerment Report*. The report contains updated information regarding the implementation of the Commission's principal duties and provides further details of current and future activities in which the Commission is or will be involved.

**GAO Report**

A December 2006 Government Accountability Office (GAO) report on the Commission's activities made several recommendations. The Commission welcomed the insights of GAO on how we could better accomplish our important mission on behalf of the American people.

The Commission incorporated many of the GAO recommendations into its 2007 revisions to the *Strategy*. For instance, GAO recommended that definitions to "financial education" and "financial literacy" be added to the *Strategy,* and the Commission defined and incorporated both terms. GAO recommended more of a focus on partnerships, and the Commission is highlighting agency partnerships with the private sector on its Web site. In response to a GAO recommendation, the Commission is also planning to conduct usability testing of and measure customer satisfaction with MyMoney.gov.

Additionally, GAO suggested an independent review of federal financial education programs and resources. Although the FACT Act does not require an independent review of such programs and resources, the Commission decided to pursue such a review, with the first series of assessments to be completed in 2009.

The GAO also recommended that the Commission work closely with private entities and state and local governments to improve financial literacy. In response, on April 17, 2007 Treasury and the Office of Personnel Management co-hosted the Commission's inaugural meeting of the "National Financial Education Network" of federal, state and local governments at Treasury. This network will facilitate precisely the type of cooperation called for in the GAO report.

We continue to work to respond to the GAO recommendations.

**Calls to Action**

At the end of each chapter of the *Strategy* are specific, numbered Calls to Action. Most of the actions are assigned to the federal government, but some of the activities are recommendations for the private sector or for individuals. Since the launch of the *Strategy* two years ago, the Commission has been hard at work implementing these calls. The Calls to Action are milestones for the Commission, and allow it to measure performance on many initiatives that would not be possible without the cooperation of all 20 member agencies.

I am pleased to provide a summary of progress on the *Strategy's* Calls to Action:

Chapter 1: General Saving

**1-1** In April of 2007, Treasury and the American Savings Education Council launched a public service announcement (PSA) on the importance of saving. The PSA promotes the Web site, MyMoney.gov and toll-free hotline, 1-888-MyMoney. This ad can be viewed on MyMoney.gov.

Chapter 2: Homeownership

**2-1** In July of 2006, the Department of Housing and Urban Development (HUD) and Treasury co-hosted a roundtable which highlighted successful partnerships that have advanced homeownership. During the meeting, the complexity of identifying partners to advance homeownership was discussed at length. Participants cited best practices which have helped with foreclosure prevention, non-traditional mortgage products, and the identification of a variety of hidden costs to consumers.

In July of 2007 in Boston, Massachusetts, HUD, in partnership with the Treasury Department, hosted the second meeting highlighting successful partnerships that have advanced homeownership. The discussion was focused on how public-private sector partnerships can better deliver grassroots counseling and training programs. The Federal Deposit Insurance Corporation and the Federal Reserve Bank of Boston also contributed to the dialogue.

Chapter 3: Retirement Saving

**3-1** In 2008, the Treasury Department and the Department of Labor (DOL) will co-host a roundtable with large employers on retirement saving. Topics will include successful strategies in integrating the delivery of financial education into the workplace and other options for increasing participation and contributions in private pensions, such as automatic enrollment.

An agenda is being developed. The roundtable is planned for the summer of 2008 in Washington, D.C.

**3-2** In April 2006, the Small Business Administration (SBA) linked its online retirement training tools for small businesses to MyMoney.gov. In addition, the Department of Labor and the Internal Revenue Service (IRS) developed and released a new publication, *Payroll Deduction IRAs*, to complement a series on retirement plan options for small employers. DOL, as part of its ongoing Fiduciary Education Campaign, *Getting It Right - Know Your Fiduciary Responsibilities*, conducted 27 Fiduciary Compliance Assistance Seminars, in coordination with the IRS, the American Institute of Certified Public Accountants, and the Society of Human Resources Management.

**3-3** DOL, working in partnership with a national non-profit organization and the IRS, has implemented the multi-faceted campaign to educate small businesses and their accountants about options for employee retirement plans. The DOL and its national non-profit organization partner created a DVD that provides first-hand observations from small employers and their employees as well as the accountants for the businesses on the benefits of their retirement plans. The DOL and the IRS are working on a new publication on the automatic enrollment 401(k) plan which will be published this spring and are updating the popular publication, *401(k) Plans for Your Small Business*. The DOL and its national non-profit organization partner are completing work on an interactive Web site that will help small businesses and their accountants find the retirement plan options that are appropriate for their business. This site will be available to the public later this spring.

Chapter 4: Credit

**4-1** Through an agreement with the Ad Council, Treasury has been working to develop and execute a multimedia public service announcement campaign on credit literacy for young adults, emphasizing the impact of one's credit score. The project has progressed through the research, focus group, and creative stages, and is now in production. The campaign is scheduled to launch in the summer of 2008. It will

feature television spots, radio spots, and a new Web site. Some elements of the Web site will also be available in Spanish.

Chapter 5: Consumer Protection

**5-2** In April of 2006, Treasury released the DVD, *Identity Theft: Outsmarting the Crooks*, and made it available to the public through MyMoney.gov and 1-888-My Money.

All copies of the DVD, which totaled 60,750, were distributed. A transcript of the DVD can be found online at http://treas.gov/offices/domestic-finance/financial-institution/cip/pdf/library_transcript.pdf.

Chapter 6: Taxpayer Rights

**6-2** The Department of the Treasury and a Federal Reserve Bank have continued the national public education campaign, "*Go Direct.*" The campaign is designed to encourage Americans who receive federal benefit payments, particularly Social Security, to use direct deposit. From the start of the pilot program in September, 2004, through February 8, 2008, there were more than 1,670,000 conversions of paper check recipients to direct deposit enrollees. The U.S. Senate declared February 2008 as "Go Direct Month" to motivate more Americans to select direct deposit for their Social Security and other federal benefit payments.

**6-3** As a result of the Department of Health and Human Services' (HHS) public awareness campaign on the new Medicare drug benefit that encourages seniors and people with disabilities to take a look at their prescription drug coverage options, over 90 percent of those with Medicare have some form of drug coverage. Of those, almost 24 million have prescription drug coverage through the new Medicare Part D benefit. HHS worked with 40,000 partners and conducted more than 12,000 events to educate taxpayers and beneficiaries on enrolling in the Part D program. More than 1.4 million beneficiaries have enrolled in Medicare's Part D program since June of 2006, bringing the total number of people with Medicare receiving comprehensive prescription drug coverage to more than 39 million.

Chapter 8: The Unbanked

**8-1** Four regional conferences have been held on how to reach the unbanked. The conferences were held in Chicago, IL in May 2006; Edinburg, TX in December 2006; Seattle, WA in March 2007; and New York, NY in October 2007. The conferences have touched on topics such as building partnerships and identifying solutions, serving immigrant communities, reaching young customers, providing financial education to help new and potential bank customers, and what can be learned from alternative lenders. The conferences were accomplished by the Treasury along with the Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision ,the Federal Reserve Banks of Chicago, Dallas, New York, Philadelphia, Richmond, and San Francisco, and with assistance from HUD, the Washington State Department of Financial Institutions and the New York City Department of Consumer Affairs, Office of Financial Empowerment. These conferences brought together a wide range of attendees on the topic of serving the unbanked population.

Chapter 9: Multilingual / Multicultural Populations

**9-1** The Department of the Treasury has held three roundtable discussions on financial education topics of special concern to specific communities. In March of 2007, the first roundtable took place at Treasury and was focused on American Indian or Alaskan Native populations. Topics included public and private partnerships, access to financial institutions and services, and public awareness events on reservations.

In July of 2007, the second conference on multicultural and multilingual communities took place at Treasury. The focus was Asian and Native Hawaiian or other Pacific Islander communities. The main topics covered were financial education programs and partnerships that have successfully promoted financial education in the Asian and Native Hawaiian or other Pacific Islander communities. Representatives from the business world, from nonprofits and from government participated in the discussion.

In March of 2008, the third conference took place and focused on Black or African American communities. The main topics covered were using media to reach Black or African American markets, credit literacy, youth and higher education, and preparing for retirement.

On June 10, 2008, the fourth and final conference, which will focus on Hispanic or Latino communities, is expected to be held at the Treasury.

Chapter 10: Kindergarten – Postsecondary Financial Education

**10-1** In February of 2007, the Department of Education (ED) and Treasury co-hosted a two-day summit on kindergarten through postsecondary financial education. The summit brought together teachers, students, program providers and researchers from across the country to discuss the role of financial education at school, non-school venues and college-level programs. As part of this summit, a request for comments was published in the *Federal Register* on the topic of raising the financial literacy levels of kindergarten through postsecondary students. The findings from this summit and the request for comment are currently being reviewed. The findings are expected to be made available by June of 2008.

Chapter 11: Academic Research and Program Evaluation

**11-1** The Treasury Department, along with the Department of Agriculture's Cooperative State Research, Education and Extension Service, will convene a symposium of researchers who specialize in financial education. The goal of the symposium is to raise awareness of existing academic research and to define questions that require additional analysis. The symposium will result in a white paper that will survey current financial education research and will also identify areas of potential future research. The symposium is scheduled for the fourth quarter of 2008.

Chapter 12: Coordination

**12-1** The Commission has continued to update the Web site to make available the most current information on federal resources as well as federal financial education grant programs. In the past year, the My Money Web site has added a new feature: a calculator resource page. There are calculators for mortgage computations, home buying, college planning, savings bonds, and tax withholding. In 2008, a new link was added that takes users to the Money Math Lessons for Life curriculum. Currently, all Commission members have links to MyMoney.gov from their agencies' Web sites.

The Commission continues to enhance MyMoney.gov. In 2006, the "Money 20" interactive quiz was added to the Web site, where visitors can test their knowledge with a 20-question online quiz which covers a variety of personal finance issues. The quiz has proven to be popular. Since its inception in fiscal year 2006 through the end of March 2008, 60,051 people have taken the quiz.

**12-2** In August of 2006, GSA and Treasury completed the first survey of federal financial education programs and resources. Findings have shown very little overlap or duplication among federal financial education efforts. The overlap noted was found to be minor and necessary to the completeness of a particular resource or topic. Subsequent surveys have produced similar results.

**12-4** The Web site Subcommittee developed criteria and features existing partnerships on MyMoney.gov. The Commission also encourages new partnerships through MyMoney.gov.

**12-5** In April of 2007, Treasury and the Office of Personnel Management (OPM) hosted the inaugural meeting of the "National Financial Education Network" of federal, state and local governments. The Network, which brings together representatives from different areas and levels of government across the nation to advance financial education efforts, will meet regularly to discuss topics related to financial education.

The Commission, in partnership with the Washington State Department of Financial Institutions and Washington Mutual, hosted the West Coast Summit of the National Financial Education Network on October 30 and 31, 2007.

One of the accomplishments of the Network is the creation of a Web site. A non-profit organization, in consultation with the Financial Literacy and Education Commission and the Network developed a Web site (www.flecnationalnetwork.org) which is comprised of materials submitted by the members of the Network to provide resources on financial literacy to the general public. The Web site addresses various topics including credit, retirement, financial planning and savings among others. To date, the Network is comprised of over 60 members and continues to broaden its membership.

Chapter 13: International Perspective

**13-1** The Treasury Department will host an international summit on financial education. To bring about this multinational discussion the Treasury Department will invite the central government authorities responsible for financial literacy in their respective nations to convene and discuss recent developments, innovative methods, and successful strategies for improving financial literacy in their home countries. Treasury is partnering with the Organization for Economic Cooperation and Development to co-host an international summit on financial literacy in May 2008, in Washington, D.C.

**Department of the Treasury**

The third and final way we implement financial literacy initiatives is through Treasury's own outreach and education efforts.

Within Treasury, several bureaus and offices work in the field of financial education. These include the Bureau of Public Debt (BPD), the IRS, the U.S. Mint, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and, at department headquarters, my office and the Office of Financial Education.

While all of these offices perform important tasks in financial education, the bulk of Treasury's efforts in the field are conducted by its Office of Financial Education. This office was designated by Congress to lend its expertise and provides primary support to the Financial Literacy and Education Commission.

Since its establishment in 2002, the Office of Financial Education has undertaken a tremendous outreach effort. The staff has traveled to 47 states, plus the District of Columbia and Puerto Rico, has held 369 financial education sessions reaching more than 30,000 people. The office produces and disseminates guidelines for quality financial education, provides technical assistance to local programs in English and Spanish, forms partnerships with groups nationwide to connect them with resources, and coordinates the activities across the federal government through the Financial Literacy and Education Commission.

**Conclusion**

I hope this discussion has given a useful overview of our work.

As Americans, we share the desire to provide for our families, achieve financial security, and have a comfortable retirement. Being financially literate makes those goals more attainable. We hope that through our efforts to increase financial literacy people will lead better, more prosperous lives.

Through our continued outreach and education effort, as well as through the ongoing work of both the Financial Literacy and Education Commission and the President's new Advisory Council on Financial Literacy, Treasury can help more Americans become financially literate.

Now, I will be happy to answer any questions from the Committee concerning financial literacy.

**-30-**

Financial Literacy Testimony
Jill Docking
April, 2008

As a generation, we have distinguished ourselves fiscally from our parents by moving away from a high tax, active government structure to a lower tax, individual responsible model. The assumption in this shift is that we can make better decisions with our money than the government. The risk of this shift toward individual responsibility is that Americans will not use the discipline and prudence necessary to save money for college for their children, to save for their retirement, or to use credit cards in a responsible manner. The resulting effect of shifting money from the government to individuals has been the reduction of funding for public schools, infrastructure and national research.

The challenge with the shift of tax dollars back to individuals is not the concept itself, but the assumption that they have been taught to care for themselves financially. Unlike our parents, we have not experienced the best teacher of financial prudence, a prolonged economic downturn like the Great Depression.

So here we are with a need to educate Americans in financial concepts, but with inadequate funding to make a difference on a large population. What is the best use of our federal and state funds to moderate the behavior of this generation and future generations? Given our limited resources, we must set priorities by targeting K-12 and postsecondary students to take a long term look at improving financial literacy.

The most current national scores in financial literacy were reported in early April and the results are very concerning. The financial literary scores of the 2008 high school seniors rank lower than their 2006 peers. The Jumpstart Coalition biennial survey, funded by Merrill Lynch Foundation, recorded a low mean score of 48.3% vs. 2006, of 52.4%. This year Jumpstart tested college students and these scores were higher than the high school students. Freshman scored 59% while college seniors were at 65%. The scores tell us our kids need help and that we should be looking at K-12 and postsecondary students for a continuum of learning. The statistics demonstrate increased understanding of students as they move from high school, to college, to the workplace.

In Kansas, we decided the best way to approach this problem was to integrate financial literacy into the K-12 curriculum for all public school students. The catalyst for this change began with a group of concerned private citizens coming together to form Financial Fitness Foundation, a 501(C)(3). Our focus initially was to sponsor financial fitness seminars for high school students, teaching them the dangers of irresponsible credit card use, the power of compounding returns, and the freedom of financial security. While these seminars were popular, the board of Financial Fitness Foundation decided the seminars influenced too few individuals to make much difference. We shifted gears and decided to try to incorporate financial concepts into the K-12 curriculum.

While I am President of Financial Fitness Foundation, our Executive Director, Carol Rupe, organized the effort to pass a law in Kansas for financial literacy. The law passed overwhelmingly thanks to an incredible bipartisan effort.

The implementation has been difficult. The law wasn't grade level or subject specific. No one feels ownership in the teaching of personal finance. Therefore, it is being taught sporadically throughout our state.

The Financial Fitness Foundation produced teacher and student materials along with videos to assist teachers in teaching financial literacy. We distributed those materials to every high schoc in the state. We teamed with the Kansas Council on Economic Education to produce interactive CD rom lessons for students in K-8th grade. There are dozens of lessons and hundreds of supporting materials for teachers that are aligned with Kansas standards in reading, math and social studies. These materials are currently being distributed across the state for free to every school that receives a three-hour training on how to use the information with students. In spite of the availability of all of the material and teacher training, the results have been mixed.

The Kansas State Department of Education recently conducted a survey of every school in the state to determine what is being taught in the area of financial literacy, by whom, at what grade level, and in which classes. The data shows that there is no consistency across the state. In elementary and middle schools, personal finance, if it is taught, is being integrated into the curriculum. In high school, it is often a separate course. Many teachers report that very little time (less than two days) is spent teaching the information, unless it is a separate course. Most teachers said that they had no college classes to help them teach financial literacy. They said th there have been a few professional development classes available to help prepare them. Those who are teaching personal finance feel somewhat prepared and say they have found materials that are appropriate. Teachers added that more staff time needs to be devoted to helping them teach this information.

So how can the federal government help to fuel interest in the subject? Our government must own the issue. If we go state by state, or city by city, we will not get the required results. There is no lack of material in this area of study; the scarcity is in the incentives or mandates available to drive the issue.

Some thoughts on **incentives** would be the following: (1) Government should help underwrite the training of K-12 teachers in the subject matter with funds for continuing education. (2) We need to "scale-up" personal finance in all postsecondary general education courses. A course platform that is web based, taught by well trained faculty, would do the job, but it requires resources.

**Mandates:** A test of proficiency could be mandated by the federal government and funding provided for this test either at the end of high school or before entry into postsecondary schooling. In the event that the student fails, there should be funding for remediation.

You have a unique opportunity to give the gift of financial literacy to future generations of Americans. The K-12 and postsecondary arena offer a large targeted population, at the perfect age to study these concepts. If we could be sure our children and grandchildren were equipped with the knowledge to care for themselves financially, we would have fewer worries about the government being unable to care for them with social security and medicare.

Think big – You have the bully pulpit and there are many of us, moms and dads, grandmothers and grandfathers, to support you in this effort.




National Council on Economic Education

**Testimony of Dr. Robert F. Duvall**
**President and Chief Executive Officer**
**National Council on Economic Education**
**before the**
**House Committee on Financial Services**

**April 15, 2008**

Chairman Frank, Ranking Member Bachus and Members of the Committee:

Thank you for inviting me to testify today on the timely, critical, and vital issue of the federal government's role in empowering all Americans to make informed financial decisions. It is especially fitting for the Committee to hold this hearing during Financial Literacy Month. As a member of the newly formed President's Advisory Council on Financial Literacy, as a parent, as an educator, and as a citizen, I commend you for focusing attention on the issue. There are few matters which more directly address the traditional American virtues and values of self-reliance, individual responsibility, and good citizenship.

**Who We Are and What We Do**

My organization, the National Council on Economic Education (NCEE), is a champion of financial literacy and a leader in the field. The NCEE is a unique nonprofit, nonpartisan, independent organization directed by an outstanding governing Board of national volunteer leaders from education and business, with the clear and compelling purpose of helping young people learn to think and choose responsibly and successfully. For 60 years, NCEE has been leading the charge to improve economic and financial literacy through education in the nation's schools. Today, both the need for what the NCEE does best, and the opportunities to make an effective difference in meeting that need, are greater than ever.

The NCEE is a founding, and active, member of the Jump$tart Coalition for advocacy for financial literacy, and we are a principal participant in Financial Literacy Day on Capitol Hill, on April 28th.

We at the National Council on Economic Education believe our young people need to know and deserve to know about the economic system they will be working in, contributing to, benefiting from, and ultimately, inheriting. Since our founding, we have learned that the basics of financial literacy, taught early, often, and well, are a key to our nation's continued success in the global economy. Our charge is to ensure that all our young people are empowered with an "economic way of thinking", that will help them make good decisions about managing their resources—as members of families and communities, in the workforce, and as citizens.

The need is great. A survey released by the Jump$tart Coalition last Wednesday states that high school students' financial know-how has gone from bad to worse.

The NCEE is committed to doing something about this problem – today, and for the day after tomorrow. We are differentiated by our mission. We believe that financial literacy comes through effective economic education, that this education must be part of the core learning experience that our young people get while they are in elementary and secondary school.

Financial circumstances keep changing. The basic principles of economics – cost/benefit, opportunity cost, supply and demand – do not. We want to teach all our young people a skill set – that is, get into their heads and hands a "tool kit" – that they can use, and apply, all their lives.

NCEE delivers its program both directly and through a unique nationwide network of affiliated State Councils and university-based Centers for Economic Education. Through these channels we reached 150,000 K-12 teachers and over 15 million students in more than 70,000 schools in 2007. In 2008, we will be launching an on-line platform for reaching and teaching thousands more teachers in underserved areas.

NCEE is the premier source of teacher training and teaching materials used to instill an understanding of basic economic and financial principles for students in kindergarten through 12$^{th}$ grade. NCEE's materials are the state-of-the-art and the standards-setter in the drive to improve economic and financial literacy. And teaching teachers has a powerful "multiplier effect," as those teachers impact students year after year. We believe this school-based approach is the best means to improve financial literacy over the long haul.

NCEE also conducts a distinctive international teacher-training program, which carries our free market principles to the world. Congress has provided funding for the NCEE's Economics*International* program through the *Cooperative Education Exchange Program* (CEEP). This program has been a tremendous success story in international outreach and education, serving 31 foreign countries and reaching more than 13.2 million students since 1995. NCEE is grateful for Congress' continuing support for this important initiative. NCEE is now working strategically to expand the reach of its international programs, with a special focus on the nations of our own hemisphere.

**The Challenge**

The need to strengthen, expand and enhance education in economics and personal finance in our nation's schools remains urgent. The issues faced by the Financial Services Committee in recent months are stark examples of this need. ***We must prepare our young people, while they are in school, with the basics of economic and financial literacy so that they can succeed in life.*** There is now widespread agreement for these propositions among policymakers, business leaders and educators. The challenge is to transform this consensus into action.

**What Can Be Done?**

In order to address the economic and financial literacy gap, our elementary and secondary schools must integrate standards-based economic education into their core curriculum. The NCEE, through its Economics*America* program, along with other partners, is striving to accomplish this goal. The federal government plays a critical role in providing resources for these efforts through the *Excellence in Economic Education* (the EEE) program.

Congress authorized the EEE program as part of the No Child Left Behind Act "to promote economic and financial literacy of all students in kindergarten through grade 12." Congress specified that the Department of Education awards EEE funding through a competitive grant to a primary grant recipient. This organization then uses the funds to: strengthen relationships with state and local economic education and financial literacy entities; support K-12 teacher training; support research and assessment of economic and personal finance education; and develop and distribute economic and personal finance educational materials. The primary grant recipient must also distribute 75% of the funds to state and local education organizations.

In 2004, at the inauguration of the EEE program, in a competitive application process, the U.S. Department of Education selected NCEE to administer and implement this important initiative. Since that time we have been proud to play this important role, distributing over 800 subgrants to state and local educational organizations and conducting several important activities directly that are advancing the field. We are grateful for our continuing, productive work with the Department of Education in ensuring and maximizing the effective, efficient use of these funds, and magnifying the impact of a relatively small dollar amount.

The EEE directly supports the most important actions educators can take to improve economic education in our elementary and secondary schools:

- Professional development for teachers;
- Distributing high quality, standards-based and standards-setting educational materials to teachers and classrooms;
- Fostering active learning for students; and
- Evaluating and assessing economic and financial education outcomes and promoting "best practices."

Since 2004, Congress has provided consistent support for EEE, thanks in no small part to the splendid efforts of Congressman Hinojosa and Congresswoman Biggert.

**Teaching the Teachers**

Well-prepared teachers instill in children a sense that they are themselves future stakeholders, decision-makers and movers of the American economy. Through innovative lessons, simulations and other active-learning techniques, they help students see that to grasp the basics of economics is to grasp the reins of lifelong empowerment – for themselves, their families, their communities and our country. Ensuring teachers are well trained in economics is especially critical because more often than not, the teacher assigned to this class specializes in another subject.

Infusion of personal finance and economics principles into other subjects can be an effective way to assure these subjects a place in the crowded "shelf space" of the school curriculum. NCEE has developed extensive experience in addressing the challenge of infusion. Among the NCEE's materials keyed to curricular integration, for one good example, is "Mathematics and Economics: Connections for Life" (www.mathandecon.ncee.net), which we developed in partnership with the National Council of Teachers of Mathematics.

But integration of financial decision-making skills into other subjects requires effective training. Several EEE subgrants have been directed toward training programs for curricular infusion – a few fine examples include:

- Training on Integrating Economics and Finance into the Classroom for Grades 6-12 Social Studies Teachers;
- Elementary and Middle School Integration of Economics with Literature, Math, Social Studies and Practical Living;
- Integrating Basic Economics into High School American History Courses;
- K-6 Teacher Training on Integrating Economics with Other Subjects through Ohio Academic Content Standards; and
- Training on Integrating Economics and Geography for Middle School Teachers using an innovative set of lesson plans entitled "Middle School World Geography: Focus on Economics".

**Distributing Curricular Materials**

Well-trained teachers need classroom-tested materials to educate students. NCEE has developed a wide range of award-winning materials, which are constantly revised and updated.

Last year, EEE funding allowed the NCEE to distribute 14,000 Virtual Economics CD-ROMS to every school district in the country. Virtual Economics is a comprehensive lesson planning and professional development resource for K-12 teachers, which includes a database of over 1,200 lessons keyed to grade level, concept, Voluntary National Content Standard in Economics and each state's economics standards. The CD-ROM also includes a glossary of 500 economics terms and definitions and 51 multimedia demonstrations of key microeconomics, macroeconomics, international economics and personal finance concepts. Virtual Economics provides "one-stop-shopping" for any educator who wants to bring economics and financial literacy into the classroom.

Let me underscore the point: ***Thanks to the EEE, this tremendous resource for teachers is now available in every school district in the U.S.***

**Evaluation and Assessment**

Perhaps one of the most important ways we can improve economic and financial literacy, and ensure results, is through rigorous testing, evaluation and assessment. There is no shortage of economic and financial education materials. It is essential for educators to know which of these materials are validated through measuring

outcomes. Assessing effectiveness is a top priority for the NCEE in everything we do.

Let me share a glowing example of how the NCEE has used EEE funds to make a real difference through evaluation and assessment.

"Financial Fitness for Life," developed by NCEE, with the generous sponsorship and support of Bank of America, is an award-winning, highly-acclaimed comprehensive K-12 program, which helps students apply economic and decision-making skills to the real world of earning and spending an income, savings, using credit, investing, and managing money—that is, a fitness program. The NCEE awarded a grant of EEE funds, in accordance with the terms of the guidelines of the EEE program, to economic education researchers Cynthia L. Harter and John F.R. Harter of Eastern Kentucky University, who tested the effectiveness of "Financial Fitness for Life" in an economically underprivileged region of Kentucky. The study found that the use of "Financial Fitness for Life" significantly increases "student performance on a post-test assessment when compared with a pre-test of those same students." The study also found that "Financial Fitness for Life" increases financial literacy, and that "for $7^{th}$-, $8^{th}$-, and $10^{th}$ grade students, this increase is higher than what results from whatever other curriculum, if any, the teachers were previously using to teach financial concepts."

This is powerful.

The first step in improving financial literacy is developing standards-based materials. The second is training teachers. The third is delivering the materials through these teachers into the classroom, and ultimately to our young people while they are in school; before it is too late - so they can use this education in the "real world". And finally, through evaluation and assessment we will know whether we are effectively delivering economic education and whether this education makes a meaningful difference in students' financial literacy – and lives.

**What Can Congress Do?**

We are encouraged by Congress' increased focus on economic and financial education issues over the last several years. The founding and ongoing activities of the Financial and Economic Literacy Caucus have done a great deal to raise the profile of these issues on Capitol Hill and beyond. I want to thank Congressman Hinojosa and Congresswoman Biggert for taking the initiative to organize the Caucus, and for the leadership in its continued work.

In 2003, Congress created the Financial Literacy and Education Commission. The NCEE has worked closely with the Commission, including by providing comments on the National Strategy that the Commission was charged with developing. This worthy work is ongoing, and now complemented by the President's Advisory Council on Financial Literacy.

I encourage Congress to maintain, and if possible, increase funding for EEE, as well as reauthorize this needed program as part of the Elementary and Secondary Education Act.

**Conclusion**

I am very gratified that the Committee is focusing on this literacy. Teaching sound economics and finance, and making it stick, is not only vital to an individual's success and well-being, but will ultimately and significantly contribute to ensuring a strong and competitive national economy and a more prosperous future for our country.

Thank you again for inviting me to testify today, and I will be happy to answer any questions.

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working in support of education

**Testimony at hearing before the House Financial Services Committee on Financial Literacy and Education**
**By**
**Phyllis Frankfort, President and Chief Executive Officer**
**Working in Support of Education Inc.**

Chairman Frank and Members of the Committee:

Thank you for inviting me to testify before your committee today. It is an honor to share with you my thoughts and experiences about financial literacy and education for young people. I applaud the Committee's interest in this very important area and stand ready to be of assistance. And while I am pleased that this Administration, too, is recognizing the need for financial education, I am concerned that its approach adopted by the Treasury Department reflects the shortcomings of No Child Left Behind: testing without regard to teaching or learning.

My involvement in financial education began more than 25 years ago in response to the opportunity to help Wall Street achieve more gender, racial and ethnic diversity. With support from Shearson Lehman Brothers and the New York City Department of Education, I developed a program to prepare high school students for careers in the financial services industry. The success of the program led to its expansion nationwide, and my founding of the National Academy Foundation (NAF) in 1989. In 1993, I founded the High School of Economics & Finance, the first public high school of its kind in the country.

In 2003, as the President of the not-for-profit Working in Support of Education (w!se), I created the Financial Literacy Certification Program in response to the critical need for high school students to be financially literate before they enter the workplace or college. At the time, 18-25 year olds comprised the fastest growing group filing personal bankruptcy petitions and more young people were dropping out of college because of personal debt than academic failure.

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We knew this was a problem that could be fixed, but a particular impediment to addressing youth financial illiteracy has been the absence of a cohesive national agenda or policy thrust. Currently, only 8 states require the teaching of personal finance prior to high school graduation. Although there are scattered signs of additional legislative initiatives emerging around the country – including a bill recently introduced in my home state of New York, which will mandate the teaching of personal finance in high school - many of these are not yet law and where there are state requirements, they are neither consistent in depth and breath nor scope. Compounding these problems is the fact that state initiatives often lack the funding needed for planning, standardized assessment, and building teacher capacity.

Clearly, implementation of financial literacy education at the school district level is a serious challenge. But, as today's mortgage and credit crises demonstrate, the need for implementation is acute – particularly in inner city and low income neighborhoods. It's also the case that administrators in some school districts do not acknowledge financial literacy as a priority that needs to be addressed. All too often, financial education still finds itself as a casualty in the school curriculum.

For these reasons, I am encouraged by the interest and support w!se has received from several members of Congress - particularly Congressman Gary Ackerman, Congressman Jose Serrano, Congresswoman Nydia Velazquez, and most importantly, w!se's Congresswoman, Chairwoman Carolyn Maloney. We are truly pleased by the legislative momentum at the federal level reflected by the introduction, for example, of Mr. Payne's HR 4335 – which 85 of you have cosponsored - as well as Senator Murray's S. 2671. They offer the hope for a critically needed overarching national framework and funding to support implementation. We recommend that current and future bills, whether at the state or federal level, include not only the content that needs to be covered but also an aligned requirement for assessment.

Even with this federal and state momentum, the private and independent sectors remain vital catalysts to fostering youth financial literacy. The w!se Financial Literacy Certification Program, for example, is sponsored by leading firms, who took the risk of investing in an innovation for personal finance education, including JPMorgan Chase Foundation, Citi Foundation, The McGraw-Hill Companies, The Allstate Foundation, New York State Banking Department, GE Money, the NYSE Foundation, the Foundation for Financial Literacy and the Muriel F. Siebert Foundation as well as The Department of Education's EEE. We also work with the

District Offices of the Federal Reserve System, the Financial Planning Association in New York, California and Arkansas, the Investor Education Foundation, and the New York Credit Union Foundation.

The Financial Literacy Certification Program is comprehensive and that's the key. It provides high school students in mainly low-to-middle income neighborhoods with their first access to financial education, and the opportunity to become certified as financially literate. w!se invites school districts and high schools to (a) teach a personal finance course or a comprehensive unit on personal finance within a one term course either in economics, business, math, or consumer science and (b) assess students' acquired knowledge by administering the w!se standardized Financial Literacy Certification Test. It provides instructional tools including a curriculum, pre-tests, online practice test questions, and the standardized certification test which, to our knowledge, is the only one of its type. It is newly developed twice a year for each fall and spring semester and is available in English and Spanish. Schools, teachers and students are eligible for awards based on certification test results. Students who pass the test are Certified Financially Literate (CFL). Feedback from teachers indicates that the CFL can help their students get jobs.

The w!se Financial Literacy Certification Program has grown at a cumulative rate of 1,500% since its 2003 launch in just seven Queens and Bronx high schools and has reached more than 65,000 students. In 2007 alone, it grew 54%. This year, the Program has almost doubled in student participation and has expanded from four states in 2007 to more than 20 states. This growth reflects the successful outcomes of our curriculum-based program in developing financially literate students. To cite a few:

- A cumulative average 74% of students in the w!se program have passed our test since 2003. The passing rate has also improved over time -- all the way up to 82% in fall 2007!

- Prior to instruction, the mean percent of correct answers on our pre-tests has been 49%, which matches the 2008 Jump$tart national survey of 6,800 students. After instruction, however, our Certification Test results have consistently shown a statistically significant improvement of 24% or more.

- Student behavior also has changed as a result of personal finance instruction. By the end of instruction in 2007, for example, there was a 14% increase in students' saving regularly, a 20% increase in financial goal setting, a 26% increase in students using a budget, an 11% increase in students talking to their

parents or guardians about money matters, and an increase of 6% opening a bank account. (Executive Summary, Financial Literacy Certification Report 2007)

- Schools participating in the w!se Program have shown improvements not only in financial literacy, but in other educational outcomes as well (McCubbins Report November 2007).

Clearly, instruction can make a difference.

We firmly believe that the w!se Financial Literacy Certification Program and Test is a model for improving financial literacy in this country. The heart of the program is our standardized certification test. It is scored independently, is aligned to state and national standards, and is tied to a detailed curriculum outline that teachers are required to cover before administering the test. Our assessment tool allows teachers to measure instructional effectiveness and demands that students quantifiably demonstrate their mastery of personal finance. Despite our exceptional outcomes, challenges remain. They include 1. the need for funding to support expansion, leverage best practices, and build teacher capacity, and 2. The insufficient number of high school or district officials with a goal to graduate students that are financially literate.

In addition, given WISE's successful track record, it is unfortunate that we are not involved with the High School Challenge, an initiative of the recently convened President's Advisory Council on Financial Literacy. We heartily applaud the formation of the Council and its overarching goals. Nevertheless, our successful Test and awards certification program is already having a profound effect on high school financial literacy around the country. It seems that the High School Challenge, spearheaded by the Treasury Department,

- simply replicates our concept of testing and recognition but
- adds no pedagogical value, new element, perspective or innovation to help reach the goal of youth financial literacy
- and, in the Department's own words, is intended merely to spark interest at a time when the priority is to get the job done. The Jump$tart survey has been sparking interest for a decade.

The High School Challenge, therefore, seems to be a rather shortsighted and wasteful use of taxpayer money at a time when taxpayer dollars should be used to do more.

The fundamental flaw is that the Challenge is not tied to required learning. Consequently, it will take valuable instructional class time to little effect. Hopefully, this challenge will not mimic the failure of the President's Physical Fitness awards program which has not been sufficient to prevent or reduce obesity among young people because a test or award alone does not necessarily translate to changed behavior or increased knowledge. W!SE, however has demonstrated that its instructional program, which is aligned with a validated test *does* change behavior and results in a statistically significant improvement in knowledge. In short, much like "No Child Left Behind," the only thing the High School Challenge offers is a catchy-sounding headline for a press release.

These facts seem to have been lost on the Treasury and I regret to say that, ultimately the Challenge is a missed opportunity for progress and, consequently, a waste of taxpayer money – ironic on this day when millions of Americans submit their tax returns.

I am not being self serving or proprietary today and have conveyed my concerns to senior Treasury officials on several occasions. Additionally, since the Treasury seemed insistent on having a high school financial literacy test, I offered our assessment tool to them as an alternative and more effective way forward. After all, Treasury awarded w!se its Sherman Award for Excellence in Financial Education for our Certification Test just four months prior to their decision to develop their own test and had solicited and received our copyrighted materials. I can only conclude that Treasury is more not interested in real, demonstrable educational progress. In terms of nourishing the minds of our youth, the Challenge is the equivalent of a plate of syrup without the pancakes. That is truly unfortunate for all concerned.

We will not have financial literacy without effective instructors and instruction. The pending legislation will address the problem and funding for a concerted effort will help the country move the agenda forward. We cannot change history. We can develop a new generation of responsible, financially savvy adults.

In closing, let me say once again that it has been a pleasure for me to offer my observations to you as this distinguished Committee deliberates on how to address the vital issue of financial literacy and education. I am confident that we have much to offer in this process and hope you will tap into our expertise for the benefit of America's youth. w!se stands ready to support your endeavors.
Thank you.

STATEMENT

OF

JOANN JOHNSON, CHAIRMAN

NATIONAL CREDIT UNION ADMINISTRATION

ON

"FINANCIAL LITERACY AND EDUCATION: THE EFFECTIVENESS OF GOVERNMENTAL AND PRIVATE SECTOR INITIATIVES"

BEFORE THE

HOUSE FINANCIAL SERVICES COMMITTEE

April 15, 2008

## Introduction

The National Credit Union Administration's (NCUA) primary missions are to ensure both safety and soundness and compliance with applicable federal regulations for federally insured credit unions. It performs these important public functions by examining all federal credit unions (FCU), participating in the supervision of federally insured state-chartered credit unions in coordination with state regulators, and insuring credit union member accounts. In its statutory role as the administrator for the National Credit Union Share Insurance Fund (NCUSIF), NCUA provides oversight and supervision to 8,101 federally insured credit unions (as of 12/31/07), representing 98 percent of all credit unions and approximately 87 million members.[1]

NCUA regulates and insures all FCUs and insures most state-chartered credit unions. Under this framework, NCUA is responsible for enforcing regulations in FCUs and for evaluating safety and soundness in all federally insured credit unions. NCUA is responsible for monitoring and enforcing compliance with most federal consumer laws and regulations in FCUs. In state-chartered credit unions, the appropriate state supervisory authority has regulatory oversight and enforces state consumer laws and regulations.

NCUA appreciates this opportunity to outline the important role it and the credit union community are playing in our nation's financial literacy efforts. NCUA's testimony

[1] Approximately 167 state-chartered credit unions are privately insured and are not subject to NCUA oversight.

will address its financial literacy initiatives and programs, examples of the credit union community's best practices pertaining to financial literacy programs, the role of NCUA's service as a member agency on the U.S. Financial Literacy and Education Commission (Commission), and NCUA Chairman JoAnn Johnson's role as chair of the Commission's My.Money.Gov website subcommittee.

## NCUA's Efforts to Promote Financial Literacy

NCUA has a long history of providing financial education programs for use by credit unions. For example, in the 1960s NCUA's predecessor agency the Bureau of Federal Credit Unions, in concert with the U.S. Office of Economic Opportunity, chartered over 700 federal credit unions aimed specifically at providing financial services to low-income consumers. The Bureau of Federal Credit Unions also provided consumer education programs such as Project Moneywise, to support these new credit unions.[2] Current NCUA efforts are focused in three main areas – training, assistance, and partnership programs.

### Training

NCUA hosts a variety of training workshops and conferences to help equip the credit union industry with best practices to improve the financial literacy of credit union members, particularly those of underserved communities. NCUA's Office of Small Credit Union Initiatives conducts numerous credit union workshops across the country, tailored specifically to credit unions with assets of $50 million or less. The free training

[2] Member Service Assessment Pilot Program (MSAP), page 17.

provides credit unions with information designed to bring underserved consumers into the financial mainstream and enhance their financial literacy. Since institution of these workshops, approximately 1,900 credit union representatives from 1,060 credit unions have attended.

"Access Across America" is a financial education initiative created and implemented by NCUA that features periodic regional conferences highlighting public and private-sector "best practices" initiatives and solution-based efforts for consumers in lower income strata. These conferences have focused on issues such as sustaining homeownership; saving for education and retirement; building assets through the IRS Volunteer Income Tax Assistance Program (VITA); improving use of credit; and meeting the special financial needs of military communities.

Additionally, NCUA promotes financial literacy through a "Financial Literacy Library" located on its website, www.ncua.gov. The library provides consumers access to a clearinghouse of printable brochures and resources addressing important financial management topics, including identity theft prevention, credit card debt management, and detailed information about NCUSIF-insured accounts. The library also includes links to resources provided by Federal agencies and the private sector, including FDIC Consumer News and Money Smart, U.S. Department of Treasury's Office of Financial Education, and Jump$tart.

**Assistance**

To further the Agency's outreach to underserved communities, NCUA administers the Community Development Revolving Loan Fund (CDRLF) program. CDRLF is funded through congressional appropriations, providing financial assistance for low-income designated credit unions – credit unions consisting of 50 percent or more low-income members. This financial assistance may be in the form of a loan or a technical assistance grant (TAG). The financial assistance programs are broadly structured so that low-income designated credit unions may create outreach programs that meet individual community needs. Since 2004, NCUA has awarded $500,341 in TAGs to credit unions for financial education and related purposes. Examples of successful implementation of these resources by NCUA include:

- Consolidated member outreach grants into the *Enhancing Member Services TAG Initiative*. Credit unions were able to receive funding for financial education, homeownership, and other member outreach programs.
- Offered grants to low-income credit unions specifically for the implementation of a *Financial Education TAG Initiative*. This initiative funded basic credit counseling and savings programs that help consumers avoid or prevent foreclosure.
- Promoted the *Volunteer Income Tax Assistance TAG Initiative*, including a financial education portion.
- Developed the *Outreach and Partnering TAG Initiative* which embodied the *Enhancing Member Services TAG Initiative*, and added an opportunity for

credit unions to establish a partner relationship with a government agency, community group, school, or non-profit, for the purpose of providing financial education, homeownership, or savings programs to their communities. Using the strengths of the partner organization, the credit union could provide services to the community.

Notable success stories of the TAG Initiative benefiting credit unions include:

- Syracuse Cooperative Federal Credit Union in Syracuse, New York, offers bi-lingual financial education workshops addressing homeownership, qualifying for a mortgage, and building credit. The credit union also deploys financial advisors who help members avoid foreclosure by providing housing counseling and access to mortgage lenders, realtors, or legal advisors. The credit union used the funds to revise a financial education workbook for teaching disabled high school students.
- North Side Community Federal Credit Union in Chicago, Illinois, serves recent immigrants by linking its financial education program to a citizenship readiness program, providing counseling to immigrants regarding saving and money management.

In addition to offering financial assistance, NCUA staff provides technical assistance and expertise to credit unions serving low-income populations. For example:

- NCUA staff worked to enhance delivery of financial education resources to Native American populations served by Bear Paw Credit Union in Havre, Montana, enhancing delivery of financial education resources to the Native American population residing on the nearby Fort Belknap Indian Reservation.
- NCUA's Economic Development Specialists (EDS) are trained to provide individualized assistance to credit unions. EDS facilitates strategic planning sessions and provides insight so credit unions may include financial literacy programs in their strategic plan.

**Partnerships**

Through current and past initiatives such as the "Partnering and Leadership Successes" program, NCUA promotes the formation of partnerships among and between credit unions, community based organizations, government agencies, and other entities to increase financial education initiatives available to credit union members and their communities. NCUA fosters these partnerships by communicating available opportunities during training events, conducting on-site contacts at credit unions, and providing collaboration tools on the Agency's website. In addition to implementing partnership initiatives, NCUA reviews and enhances existing programs on a continuing basis.[3]

[3] In 2007, the agency formed an Outreach Task Force (OTF) as part of NCUA's continuing efforts to improve and support the industry's outreach to consumers, especially those of low to moderate income. The OTF's report to the NCUA Board was delivered on February 26, 2008. The report outlines the agency's historical outreach efforts along with recommendations to continue to expand efforts to enable and encourage a broader spectrum of credit unions serving or having the ability to serve low to moderate income consumers. These recommendations are currently under review.

*Another partnership that NCUA has facilitated involves Biz Kid$,* a national television series aimed at young people that promotes financial education. Produced for PBS by the Emmy-Award winning creators of *Bill Nye the Science Guy*, *Biz Kid$, the series, currently airing in 47 states,* focuses on financial literacy and entrepreneurship. The series encourages elementary and middle school students to learn basic concepts about money and business, and apply those concepts to real-life situations. NCUA recognizes the value of this type of programming and, in an effort to raise the profile and underscore the importance of disseminating information about financial literacy in as broad and practical way as possible, Chairman Johnson taped a video introduction targeted at credit unions in 2007.

## Industry Best Practices Pertaining to Financial Literacy Programs

The Federal Credit Union Act defines the term "[Federal] credit union as a cooperative association organized for the purpose of promoting thrift among its members and creating a source of credit for provident or productive purposes."[4] Credit unions are committed to helping their members achieve financial self sufficiency, and thus consider financial literacy as an important responsibility to their members. A recent NCUA study based on a survey of 472 randomly selected FCUs found that 42 percent of credit unions provide financial literacy programs (including programs focused on students), and 60 percent offer financial counseling that incorporates financial

[4] FCU Act §1752.

education.[5] Several examples of successful financial literacy programs within the credit union industry are included below:

- Hawthorne Credit Union in Naperville, Illinois, employs bilingual staff in every member contact area, facilitates communication with members in more than seven languages, and reaches immigrant populations who would otherwise turn to predatory lending alternatives. Hawthorne Federal Credit Union now offers financial education for their multilingual and low-income members.
- Bull's Eye Credit Union in Wisconsin Rapids, Wisconsin, conducts financial literacy programs in the local schools. Topics discussed with students include: the importance of traditional financial institutions; accurately completing loan applications; and avoiding payday lenders. In a classroom setting, the credit union's president reviews the loan application process and a sample credit report.
- Navy Federal Credit Union in Merrifield, Virginia, features a step-by-step process on their website to assist members with determining how much they can afford to borrow while meeting the unique financial challenges present within the military community.
- Central Minnesota Federal Credit Union in Melrose, Minnesota, conducts an annual home buying seminar, educating members to become responsible consumers by preparing them for the entire home buying experience, such as

[5] NCUA, *Member Service Assessment Pilot Program: A Study of Federal Credit Union Service* (2006), page 37. Available at www.ncua.gov/reportsandplans/msap/msap-pilot.pdf.

making an offer on a home; budgeting for household experiences; and anticipating closing costs.

- Security Service Federal Credit Union in San Antonio, Texas, provides financial education to different age groups within its membership. For example, "Senior Smart Seminars" discuss age-related issues, like "Planning for Long-Term Care," to senior citizens.
- Alternatives Federal Credit Union in Ithaca, New York, designed a model describing where people are situated in various points along a continuum between poverty and self-sufficiency, what financial services are needed, and how to move along the "Alternatives Credit Path®" to financial independence. The credit union also offers "Money Wise," a practical guide that provides consumers with tools to address financial issues.
- Police and Fire Federal Credit Union in Philadelphia, Pennsylvania, partners with the Consumer Credit Counseling Service of Delaware Valley to provide members with access to free confidential credit counseling and debt management planning.
- Through the New York City Financial Network Action Consortium, Lower East Side Federal Credit Union, Lower East Side People's Federal Credit Union, Union Settlement Federal Credit Union, and Brooklyn Cooperative Federal Credit Union process Individual Taxpayer Identification Number applications and offer Individual Development Accounts (IDAs) in conjunction with financial literacy training. Lower East Side Federal Credit Union also offers home and association financing options for low-income residents, including

rehabilitation financing in partnership with the Housing Development Finance Corporation.

- The Dover Federal Credit Union in Dover, Delaware, offers financial education for youth, called the "Money Matters for Kids" program and the "What in the World" program. Since its beginnings in 2001, the Award Winning DFCU Kids Making Cents Club has focused on educating parents and kids about the importance of starting good savings habits early in life. The credit union encourages young members to save by rewarding them with a token for each deposit which can be redeemed for a variety of prizes. Open to children age 17 and under, the club has more than 2,800 little savers enrolled. The credit union offers a link on its website to the "Googolplex™" site[6] filled with more fun for the children. Additionally, the credit union partnered with the Dover Air Force Base Services Squadron in 2006, providing "Money Matters for Kids" seminars to children of their military members. This monthly series of seminars combined education in basic financial matters with other life skills training and was hosted at the Dover Air Force Base Youth Center.
- HarborOne Credit Union in Brockton, Massachusetts, partners with several community organizations and businesses to hold an annual "Credit for Life Fair." The credit union partners with several community organizations and businesses to host the fair, gathering over 250 high school seniors in the community to learn how to budget and plan for their financial future. The

[6] Googolplex™ is an online youth magazine, largely written by youth, for credit union youth of all ages. The fun games, stories, and activities deal with the money matters and life issues each age group faces.

> students select an occupation that is of interest to them and at the fair they figure out how they will live plan a budget based on the salary of the selected occupation. Volunteers from the community participate in the effort. During the fair the students are given different problems to solve designed to motivate the students to think about the unexpected financial challenges they may face as they become adults. Since their inception, the success of these financial education fairs have been well noticed, as many visitors from other areas of New England have attended and reproduced the event in their own communities.

Another way credit unions are able to offer financial literacy programs is to partner with government entities that provide assistance. Some credit unions are certified by the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI) and are recipients of awards.[7] These awards assist in defraying the costs of serving disadvantaged communities. For example, Latino Community Credit Union in Durham, North Carolina was awarded funds to defray the costs of offering bilingual financial services and financial literacy. Financial education classes are provided twice each week in each of the five branches with one-on-one member financial counseling. In addition, free credit counseling is provided over the telephone.

[7] The CDFI Fund provides financial and technical assistance awards in order to promote access to capital and local economic growth in urban and rural low-income communities across the nation. A CDFI is "a specialized financial institutions that works in market niches that are underserved by traditional financial institutions" and include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

Credit union trade associations also assist credit unions and communities with promoting financial literacy programs. For example, the industry awarded the Michigan Credit Union League for cosponsoring a Money Smart Week consisting of more than 30 educational seminars and partnering with Michigan State University Extension to provide free teacher training for NEFE programs.[8]

The credit union industry consistently gathers and applies current research to meet consumer demands. The Filene Research Institute, a nonprofit enterprise organized by the credit union industry, has developed specific financial literacy web based products,[9] including the following:

- "Lot$a Mot$a" – A computer lab where elementary and high school students can learn about prudent financial practices.
- "Virtualfinance" – Web based initiative using "virtual worlds" to attract and educate young adults.
- Savings Revolution – Web-based resource which encourages members to eliminate debt and build wealth through a "Savings Challenge" promotion between selected members. Members have the opportunity to exhange useful financial education information with each other online.
- Women: A Strategy for Success – A package of financial services to improve knowledge of budgeting and enhance financial independence.

[8] Available at: http://www.creditunionmagazine.com/story.php?doc_id=169.
[9] Available at: http://filene.org/home/i3/join.

## NCUA's Role on Financial Literacy and Education Commission

NCUA is a member of the U.S. Financial Literacy and Education Commission (Commission). The Commission, established in accordance with the Fair and Accurate Credit Transactions Act (FACT Act), consists of 20 federal agencies and is chaired by the Secretary of the Treasury. The purpose of the Commission is to improve the financial literacy and education of persons in the United States through the development of a national strategy to promote financial literacy and education.[10] In 2006, the Commission published *Taking Ownership of the Future: The National Strategy for Financial Literacy*. The Strategy serves as a blueprint for the Commission's efforts moving forward. Consisting of various "Calls to Action", the Strategy outlines specific goals for the Commission to achieve.

In October 2004, in accordance with FACT Act (Public Law 108-159 Section 514), the MyMoney.Gov website was established.[11] The MyMoney.Gov website serves as a clearinghouse of information about Federal financial literacy and education programs; provides a coordinated entry point for accessing information about all Federal publications, grants, and materials promoting enhanced financial literacy and education; offers information on all Federal grants to promote financial literacy and education, and on how to target, apply for, and receive a grant that is most appropriate under the circumstances; features website links to efforts that have no commercial content and that feature information about financial literacy and education programs,

[10] 20 USC § 9702
[11] 20 USC § 9702

materials, or campaigns; and offers such other information as the Commission finds appropriate to share with the public in the fulfillment of its purpose.[12]

The website contains over 400 links to resources addressing important economic issues facing consumers, including:

- Budgeting and Taxes
- Credit
- Privacy, Fraud and Scams
- Starting a Small Business
- Savings and Investing
- Financial Planning
- Home Ownership
- Responding to Life Events
- Paying for Education
- Retirement Planning

On November 1, 2006, NCUA Chairman JoAnn Johnson was appointed Chairman of the MyMoney.Gov website subcommittee. The membership of the subcommittee includes representation among various Commission agencies. As chair of the website subcommittee, Chairman Johnson coordinates meetings on a quarterly basis to plan and implement enhancements to the site while providing the Commission with updates about the website during informal and formal meetings.

During Chairman Johnson's tenure as Chairman of the Website subcommittee, the website has undergone significant updates and enhancements. For example:

- Additional homeownership and foreclosure prevention resources for Americans has been added, including a section highlighting home buying, home equity, and

[12] 20 USC § 9703

mortgage information. In addition, in the "What's New" section on the main page of the website, the telephone number to the HOPE NOW hotline is listed. HOPE NOW is a cooperative effort of counselors, investors, and lenders that are working to maximize outreach efforts to homeowners in distress. The hotline, (1-888-995-HOPE), provides consumers access to HUD-approved credit counselors who provide resources to consumers to help avoid foreclosure.[13]

- Information explaining the economic stimulus payments created by the Economic Stimulus Act of 2008 is now featured on the "What's New" section of the main page of the website.[14]
- In recognition of the economic impact of hurricanes and other weather related emergencies to consumers, a link was added to the website, featuring helpful information for consumers to manage their finances in the event of such emergencies. This link was introduced in timely coordination with Hurricane Preparation Week last year.
- A direct link located on the main page has been added for consumers to order the My Money Toolkit. This toolkit, available in both English and Spanish, is comprised of financial education publications from several Commission member agencies.[15]
- As part of the implementation of Call to Action 12.4 of the *National Strategy,* calling for the Commission to highlight existing partnerships and encourage new partnerships among public, nonprofit and private organizations, a new section

[13] www.mymoney.gov (April 4, 2008)
[14] http://www.mymoney.gov/ (April 4, 2008)
[15] http://www.mymoney.gov/ (April 4, 2008)

called the "Power of Partnerships" is featured on the main page of the website. Examples of these new partnerships include:[16]

**1)** The National Financial Education Network of State and Local Governments is a network of 60 state governments, local governments, and non-profit organizations that represent state and local governments.

**2)** FDIC's Money Smart is a resource which helps adults outside the financial mainstream enhance their money skills and create positive banking relationships.

**3)** IRS/non-profit organization partnerships provide tax free counseling and basic income tax return preparation for senior citizens.

**4)** *MoneyMath: Lessons for Life* is a four-lesson curriculum supplement for middle-school math classes.

**5)** U.S. Department of Agricultures' Cooperative State, Research, Education, and Extension Services are programs offered for youth, financially vulnerable populations, and consumers making financial decisions.

**6)** In addition, an email address: FLECpartnershipideas@do.treas.gov, is available to allow individuals to propose financial education partnerships that the Commission may highlight.[17]

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[16] *Taking Ownership of the Future: The National Strategy for Financial Literacy, April 2007,* http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/support-docs/2007_StrategyRevisions.pdf (April 4, 2008)

[17] http://www.mymoney.gov/partnerships.shtml (April 4, 2008)

- A web page was added featuring online calculators, which helps consumers save money for college and retirement, make responsible home purchasing decisions, and perform other complex financial transactions.[18]
- A video link to the "Choose to Save" Public Service Announcement" moved to the front page of the website. This PSA promotes the website as a helpful resource for saving and planning for retirement.

The MyMoney.Gov website remains an important financial literacy resource for American consumers as illustrated by statistics reflecting a period of time from the establishment of the website in October 2004 up to March 31, 2008:

- MyMoney.Gov has received a running total of more than 2,267,000 hits on its English-language site, and more than 64,000 hits on its Spanish-language site.
- More than 1,233,000 English-language publications and over 44,700 Spanish-language publications have been distributed to consumers through GSA's Federal Citizen Information Center in Pueblo, Colorado.
- Over 296,000 English and over 11,000 Spanish toolkits have been distributed.[19]

[18] http://www.mymoney.gov/calculators.shtml (April 4, 2008)
[19] Statistics provided by General Services Administration (GSA), April 7, 2008

## Conclusion

In recent years, President Bush and Congress have both taken tangible steps to place financial literacy at the forefront of overall efforts to protect and empower consumers. However, for credit unions, equipping members with the knowledge and information to make sound decisions has always been a priority. Credit unions have demonstrated that they view financial education as a natural outgrowth of their service-oriented philosophy. Increased financial literacy represents an ounce of prevention that can help all consumers avoid getting in over their heads, and actually enable them to use their money wisely and improve their financial health. The advertising slogan "an educated consumer is our best customer" is very apt when discussing the value of financial literacy.

Despite NCUA's advocacy for broader dissemination of financial education into the marketplace, we do not have any illusions about financial literacy being a panacea. While there are benefits to greater levels of financial awareness, NCUA does not view financial literacy as a substitute for strong and comprehensive consumer protections, both statutory and regulatory.

NCUA appreciates this opportunity to outline Agency and industry efforts regarding financial literacy. NCUA will continue to dedicate expertise and resources to assist credit unions in helping consumers make sound financial decisions throughout their lives. As the importance of financial literacy grows, so will NCUA's commitment to this vital effort.

OFFICE OF THE
ARIZONA STATE TREASURER

HON. DEAN MARTIN
TREASURER

**Testimony**

Treasurer Dean Martin, State of Arizona
*Building Successful Partnerships for Financial Literacy and Education*
Before the House Committee on Financial Services, U.S. Congress
April 15, 2008

Chairman Frank, Ranking Member Bachus, and members of the Committee, I am honored to appear before you today as the State Treasurer of Arizona, to discuss the importance of building successful partnerships between the public and private sectors in advancing financial literacy and education.

Thank you for the invitation to be here today.

**My Background & Experience**

I am a small business owner. I previously served as a State Senator in Arizona and was chairman of the Senate Finance Committee responsible for all legislation related to taxes, retirement, banking, insurance, and other financial services. I was also a senior member of the Senate Appropriations Committee and vice-chairman of the Judiciary Committee.

I was a founding board member of the Arizona chapter of the Jump$tart Coalition, a national financial literacy organization. I have volunteered time to teach financial education classes in our community. I have conducted financial education classes for adults, focusing on credit scores and understanding credit risk, as well as home-buying for Habitat for Humanity of the West Valley.

I appear here today as an elected official, the State Treasurer of Arizona. However, as a citizen and a taxpayer, I have serious concerns regarding the state of financial literacy in America.

**Where Is America Today?**

The lack of financial literacy is a problem that spans every age group and every demographic. Our nation is only as prosperous as our citizens. Our government relies on the solvency and prosperity of our citizens so they can pay their taxes. So it is fitting that we come before you today, April 15th, tax day.

As the son of a math teacher and a small business owner, I learned the value of a dollar and how to manage it very early. Unfortunately not every American has the same opportunity. The current level of financial literacy in the U.S. is woeful.


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Statistical data has shown that financial literacy among high school seniors is in decline. In a 2008 study by Jump$tart, high school seniors could not answer even half of the questions correctly.

Among the findings in the 31- question survey[1]:

- Forty-eight percent correctly said that a credit card holder who only pays the minimum amount on monthly card balances will pay more in annual finance charges than a card holder who pays their balance in full;
- Seventeen percent correctly answered that stocks are likely to yield higher returns than savings bonds, savings accounts and checking accounts over the next 18 years even though there has never been an 18-year period where this wasn't true;
- Forty percent correctly answered that they could lose their health insurance if their parents become unemployed; and
- Thirty-six percent think a house financed with a fixed-rate mortgage is a good hedge against a sudden increase in inflation, compared with 45 percent in 2006.

Anecdotal evidence is just as frightening. Imagine the chaos if the next time you are at the store, the cash register went down and everyone had to make change manually.

My wife worked her way through college as a bank teller, and witnessed firsthand the poor state of financial education in the adult population. On a regular basis, customers would come into the branch to ask for help in balancing their checkbook. In some cases, they struggled with basic math and could not perform addition and subtraction correctly. Some of them didn't understand the difference between their debit card and their credit card, so they were not deducting their debit card purchases from their check register.

**Why are we here?**

This is not the Committee on Education and Labor. Why is an issue of education so important to the Committee on Financial Services? Because it is fundamental to the survival of the financial services industry.

The current housing crisis and credit crunch has hit Arizona hard. In 2005 and 2006, more than one-third of all mortgages issued in Arizona were high-rate or sub-prime loans. We are feeling the impact of this now, as foreclosures continue to mount, and tax revenues plummet. The slowdown is likely to continue for a while, as only half of the high-rate ARMs have reset, and the last will not begin to reset their rates until the first quarter of 2009.

[1] Jump$tart Coalition 2008 survey of 6,856 high school 12th graders in 40 states


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Our own state legislature and Governor have failed to fix the largest budget shortfall in Arizona history and the largest in the nation by percentage (over 16%). As of today, we are a matter of days away from having spent all the general fund revenues we expect to receive this fiscal year. The State of Arizona may not be able to make its May 15th payment to fund Arizona schools without some action soon.

Clearly the need for financial literacy is heightened by this crisis.

**Education Before Regulation**

This morning, I want to provide you with a specific example of a need that is repeated again and again, but in this case, it has global implications.

In the Valley of the Sun, we are honored to have America's premier F-16 fighter training base, Luke Air Force Base. Airmen and women, and their flight crews, must be certified at Luke before they can be deployed.

The Base Commander was concerned about the retention of new airmen. He was losing enlistees to high debt; either they could not afford to continue, or in some cases their high debts made them a security risk.

For many of these enlistees, this was their first time away from home with the biggest paycheck of their young lives. The temptation to rush out and buy a new sports car is very great. Many of these young enlistees wind up over-extending themselves and getting upside down on their loans.

If a member of the military accumulates too much debt, they are deemed a security risk and could lose their position.

So should these young airmen be prohibited from driving or owning sports cars? Sports cars are not inherently evil; they are simply products. The solution is not to ban the sports cars, because if it was not sports cars, it would be motorcycles, or stereo systems etc... The world is full of people who will gladly separate you from your money if you give them the chance.

Rather than trying to manage the personal finances of every airman on his base through regulation, the Base Commander chose to treat the disease of financial illiteracy, not just the symptoms.


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He approached the local credit union on the base, Credit Union West for help. Highly specialized classes were developed specifically for Luke Air Force Base, to teach them how to manage their own personal finances.

Just as you would not hand a new enlistee an M4 rifle without training, the commander at Luke Air Force Base did not want to give an airman a paycheck without training. For our military, financial education has become a force readiness issue.

The solution is for the consumer to be armed with information and financial education.

As members of this committee, you are in many ways faced with the same dilemma as the Base Commander. Do you regulate and outlaw certain financial instruments or consumer products? Do you bar certain classes of people from mortgages or credit cards because they might misuse them? Do you outlaw certain types of investments because some investors over-leveraged themselves, which will ultimately limit the options of consumers? Or do you choose the more difficult, but more ultimately rewarding, path of emphasizing education before regulation?

**The Private Sector Example**

The financial industry is willing to step forward to help with this cause. It is in their own best interest; they do not want to see their customers go bankrupt, because they are the ones who do not get paid as a result.

Nearly every bank, credit union and financial institution has some sort of financial education program. Their goal is simple – they want customers to be able to pay back their loans. The financial world should be an ally in our cause to improve financial literacy.

This year, Arizona hosted one of the most exciting Super Bowls in recent memory. As the excitement began to build in the community, we decided to creatively promote financial education by tying the curriculum to the big game.

It is an example of a successful public-private partnership that did not cost taxpayers a dime. My office partnered with VISA and the National Football League (NFL) to produce the "Financial Football" game. With the help of another local Super Bowl sponsor, my office distributed this NFL-themed, interactive, money management video game to every public high school in Arizona, at no cost to taxpayers. It can be played for free online by visiting www.aztreasury.gov and clicking on "Financial Football."


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Developed in cooperation with the NFL and PLAYERS INC, Visa's "Financial Football" is designed to help students tackle their financial futures in a fun and engaging manner. It incorporates lessons taught through VISA's Practical Money Skills for Life (www.practicalmoneyskills.com), a free, award-winning, teacher-tested and approved money management program. As the centerpiece of a national financial education initiative, "Financial Football" is accompanied by a classroom curriculum and can also be downloaded for free on cell phones.

The cell phone download is a particularly effective way to reach a demographic of high school and college students and young adults, many of whom use their cell phone as their only phone, and source for music, photos and games.

The "Financial Football" program was also rolled out in 14 other states (West Virginia, Indiana, Ohio, California, Pennsylvania, Colorado, Wisconsin, Nevada, Massachusetts, Rhode Island, New Hampshire, Maine, Vermont and Connecticut).

The "Financial Football" program has been well-received by teachers and students alike. The key to any successful financial education program is capturing the imagination of the participants, and making it available to them when it is relevant to their lives.

We are currently working with VISA to roll out a college-themed version. In addition, we have a timeline to roll out materials for senior citizens, women and other key demographics.

**Where is the need?**

One of the challenges of financial literacy initiatives is that there is so much work to be done, where do we start?

Only three states in the nation require financial education for high school graduation (Missouri, Tennessee, and Utah). Only fifteen other states require personal finance instruction to be incorporated into other subject matter[2].

As you know, we live in an increasingly mobile society. In Arizona, we consistently rank as a top state for population growth. We face a greater challenge than most states, since people are moving in from around the country and around the world. This mobility, combined with a lack of retention of financial concepts, makes it impossible to rely solely on the K-12 or university system for financial education.

[2] www.jumpstartcoalition.org


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The need for financial education is varied at different ages and financial education must go beyond K-12. A person's education should not end when they graduate from high school or college.

In elementary school, they should be learning about counting and cash handling. Sadly, as I observed in my inaugural address, too many of our young people entering the workforce do not know how to make change at a cash register.

In middle school and high school, they should be learning about checking and savings accounts. Into high school and college, they should understand debt instruments, especially credit cards. In college, they should begin to learn about investments and retirement savings.

Likewise, newlyweds and first-time homeowners grappling with mortgages need to learn to think in terms of "How much can I really afford?" rather than "How much are the monthly payments?"

Fresh out of college, people need to understand what a 401k is and the importance of planning for retirement, and of having a nest egg in case of emergency.

New parents need to learn about 529 accounts and begin saving for their children's college education.

In mid-life, people need to learn how to prepare for retirement and how to judge the value of investments, both short-term and long-term.

Widows, widowers, and some divorcees face a unique challenge. In some cases, after years of marriage, the spouse that took care of all of the finances is gone. For the surviving spouse, financial education has just become an immediate and vital need. The decisions made in the first few weeks will have a significant impact on the rest of their lives.

Yet the need doesn't end there. People's capacity to learn is governed by two things: 1. The relevance of the subject to the learner, and 2. The endurance of their seat.

Like any skill, if you do not use it, you lose it. And the worst time to learn about debt is when you are swimming in it. That is why we must provide ongoing financial education for people at all stages of life, and make it readily available to them at a time when it is relevant to their own lives. And with the help of the financial services industry, this can be done at no cost or limited cost to taxpayers.

As the son of a math teacher, I would be remiss if I did not include testimony from my Mother's experience as a Title I teacher at Stewart Indian School, a Native-American school in Carson City,


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Nevada from 1973-1974. Her objective was to teach high school level math to a group of students (some in their twenties) who could not add or subtract. Her main obstacle was finding a way to capture their attention long enough to teach them.

Some of them flat-out told her that they didn't need to bother to learn math as they received a check from the government each month. At this point, she asked them, "How do you know if you're getting the right amount in your check? If you don't understand the numbers, the government could be cheating you." On the reservation, there was still a healthy distrust of the federal government, so this got their attention. They eagerly brought in their check stubs and for the first time, math and financial education became relevant to them. They eventually learned math by reading their own check stubs, and counting change.

Although Stewart Indian School has closed, the lesson remains very relevant today. People are continually bombarded with information and visual stimuli. The challenge is to break through and reach them on a personal level so they can become financially literate.

**What the Federal Government Should Do**

As a founding member of Arizona's Jump$tart Coalition and as the CFO for the State of Arizona, I have worked with non-profit organizations, government agencies, schools, private sector financial service companies, banks and credit unions to tackle this problem.

However, until I was called to testify before this committee; I did not have any communication with the Financial Literacy and Education Commission or any assistance in my efforts to help citizens in my state.

I had only learned of its existence a few weeks ago at the National Association of State Treasurers annual meeting here in Washington, DC.

There are resources available to teach financial education. We need only a little assistance to help with distribution. In short, postage, fuel, and people are needed.

We need incentives for the financial sector to continue to expand their financial education materials and offerings and to encourage them to partner with local officials to help distribute the materials.

We also need incentives for those who understand the various aspects of financial literacy to donate their time as teachers. At the end of the day, it will take a teacher and a student (no matter the age)


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to learn any subject. Much can be accomplished with technology, but there still is no substitute for a human that can answer questions.

In addition, we need a concentrated effort to educate our existing teachers at the K-12 level, so they can incorporate financial literacy into the classroom.

In fact, on Friday, April 25, 2008 the Arizona Jump$tart Coalition will be hosting its annual conference for teachers.

The conference for teachers is divided into two tracks:

1. Lessons, activities and financial education for their classrooms
2. Personal financial education for the teachers

The second track has actually proved to be more popular, because many of the teachers are not comfortable enough with their own level of financial literacy to begin teaching it to others. The conference allows the teachers to gain continuing education (CE) credits while gaining personal financial knowledge and free curriculum for their classrooms. Attendance generally averages between 150-200 people, with teachers *paying* to attend from all around the state (to cover the cost of the facility rental and lunch).

As someone who has taught the classes and is on the ground in the local communities working on this issue, I can tell you that we don't need a new federal program. We don't need to reinvent the wheel. The raw materials, the curriculum, already exist and it is free or nearly free from the financial world. What we really need from you is a central distribution point of contact to connect people to those who can help them in their state, such as the State Treasurer, Comptroller, or State Auditor. Many State Treasurers already have begun this process on their own; but assistance from the federal government would be greatly appreciated.

**Conclusion**

Whenever there exists a disparity or inequity in understanding, there will be abuse. Do we blame the sports car, and outlaw sports cars? Do we blame the lenders, and outlaw loans? This would make sports cars toys for just the rich and powerful. Not a very American concept. Our nation has always been successful because of capitalism, the freedom for people to take risks, and to be rewarded for them when they pay off, but also to be responsible for the consequences.


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My fear during this crisis is that Congress might try to regulate risk out of the system, and limit financial services and instruments to the lowest common denominator of financial literacy. This approach would be quick to grab headlines, but will harm our global competitiveness as a nation.

There are times when certain financial instruments make sense. Complex and sophisticated financial tools have their place. We should not dumb-down our financial system; we should elevate the literacy of our citizens to match.

Rather than regulating to the lowest common denominator of financial literacy, Congress should work to elevate the financial understanding of the public. In this way, Congress can help level the playing field by helping consumers recognize that if a financial deal sounds too good to be true, it probably is.

One of my greatest concerns for our nation is the same one Thomas Jefferson had: the accumulation of debt by our citizens and federal, state, and local governments. He feared, as I do, that if we continue on a path of spending that exceeds our income, we will become slaves to foreign banks. Freedom is not expressed only at the ballot box or by speaking our minds in a town square; freedom is also expressed when we make sound financial decisions that leave us independent, self-reliant and in control of our own future.

We are at a crossroads. During the last century, the launch of Sputnik shocked this nation into action. We began a period of intense focus on science and engineering education to make sure we could compete. We are in a similar place now in terms of global finance. Brazil, Russia, India and China are quickly becoming modern first world economies; the European Union is a strong economic rival. It is possible that the United States will not be the world's largest economy in my lifetime. We need to start thinking about how our economy will grow and remain strong, and it starts at the grassroots with our citizens. I do not want to wake up one day and find out that our government, and our people, have unknowingly hocked their future for a new iPod or sports car.

Thank you for the opportunity to address the committee today. I would be happy to answer any questions.


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Statement of

Cassandra E. McConnell, Director
Community and Consumer Affairs
Office of Thrift Supervision

concerning

**Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives**

before the

Committee on Financial Services
United States House of Representatives

April 15, 2008

Office of Thrift Supervision
Department of the Treasury

1700 G Street, N.W.
Washington, DC 20552
202-906-6288

Statement required by 12 U.S.C. 250: The views expressed herein are those of the Office of Thrift Supervision and do not necessarily represent those of the President.

**Testimony on Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives before the Financial Services Committee United States House of Representatives April 15, 2008**

**Statement of Cassandra E. McConnell, Director Community and Consumer Affairs Office of Thrift Supervision**

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**Introduction**

Good morning, Chairman Frank, Ranking Member Bachus, and Members of the Committee. Thank you for the opportunity to discuss the views of the Office of Thrift Supervision (OTS) on the importance of financial literacy, particularly since April is Financial Literacy Month. Although financial literacy initiatives are not a panacea, nor a substitute for prudent underwriting, strong enforcement of consumer protection laws and effective consumer disclosures, financial literacy initiatives are critical to enhancing the ability of consumers to make informed decisions about financial products and services.

At the OTS, we have long believed that financial education is an important objective for consumers and the savings institutions that serve them. Well-informed consumers are better equipped to make astute financial services choices, which, in turn, benefits financial institutions and contribute to the economic health and viability of communities.

The focus of today's hearing is: (1) an exploration of the continuing need for financial literacy and the status of current governmental and private sector financial literacy and education initiatives; (2) recommendations from the Financial Literacy and Education Commission (FLEC), which coordinates the federal government's financial education efforts and encourages the synchronization of public and private sector initiatives to promote financial literacy;[1] (3) an overview of current financial literacy activities and initiatives at the OTS and our recommendations for enhancing financial education efforts; and (4) related questions involving financial literacy. I will address these issues and look forward to a discussion concerning ways in which the OTS can continue to contribute to this important area.

**The Importance of Financial Literacy in Today's Market**

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[1] The Financial Literacy and Education Commission (FLEC) was established under Title V of the Financial Literacy and Education Improvement Act, which was part of the Fair and Accurate Credit Transactions (FACT) Act of 2003, to improve the financial literacy of persons in the United States. The FACT Act named the Secretary of the Treasury as head of the FLEC, which has a current membership that comprises 19 other federal agencies and bureaus. The OTS is a member of the FLEC.

There is growing awareness of the importance and value of financial education, beginning even during early stages of life. In today's economy, basic knowledge of everyday financial products such as credit cards and checking accounts is critical. In the current mortgage market environment, in particular, the need to reach out to prospective borrowers and homeowners with key information about the terms, features, and risks of different mortgage products can't be overstated.

In February 2007, in commemoration of National Consumer Protection Week, the OTS released a series of materials that highlighted various financial literacy issues for consumers and thrift institutions. In doing so, the OTS made resources available to consumers on financial literacy and education on our website through a series of press releases. The multi-part series was part of a wider initiative to enhance OTS efforts to assist institutions in working with their customers to improve financial literacy.

Our efforts to heighten consumer awareness include increasing informational materials on financial services topics of importance to consumers. For example, OTS produced a brochure about product features and terms that consumers should be aware of when purchasing or receiving a gift card – a product that has grown significantly in volume during recent years. OTS has also produced brochures that assist savings association customers when they wish to file and resolve a complaint against a savings association. In 2007, we resumed publication of the OTS Community Affairs newsletter, the *Community Liaison*, which provides information and identifies resources to help consumers navigate a broad range of financial services-related issues, including topics such as avoiding mortgage foreclosure prevention scams, reverse mortgages, and programs that can provide assistance for borrowers who are struggling to make their mortgage payments. I will provide more details on these publications later in the testimony.

Through issuance of materials and outreach, OTS has also emphasized how important it is that consumers monitor their credit reports and credit scores. Careful credit report monitoring helps consumers guard against identity theft and obtain credit at rates commensurate with their credit history. While some reports suggest that consumer awareness has helped identity theft abate in recent years, it remains a critical and costly issue for consumers and financial institutions. We have encouraged all of the institutions we regulate to work with their customers to increase awareness of the importance of periodically monitoring their credit reports. The OTS Web site, under "Consumer and Compliance/Consumer Inquiries" at www.ots.treas.gov, contains a link to the FTC's Web site for more information on credit report monitoring.

We are also upgrading the OTS's electronic dissemination of consumer-related information. We are currently developing a new Web site with greater navigation capability so that users can more easily locate information, including a more user-friendly interface for database searches on a number of topics. We are also reviewing, revising, and updating the "Consumer and Community Affairs" content our Web pages.

**CRA's Role in Promoting Financial Literacy and Education Efforts**

**The OTS CRA Realignment**

The Community Reinvestment Act (CRA) and its implementing regulations ensure that a mechanism exists to provide incentives for OTS-supervised institutions to develop programs, products and services that expand and enhance financial literacy efforts. In 2007, OTS realigned our CRA regulations with those of the other banking agencies. An important driver of that decision was to ensure OTS-supervised large savings institutions were evaluated under the lending, investment and service tests, consistent with the performance tests under which large institutions regulated by the other agencies are evaluated. Under the service test, large retail institutions are evaluated on their provision of retail and community development services.

Furthermore, establishing CRA uniformity allowed OTS-supervised institutions to be examined as intermediate small savings associations under a streamlined lending and community development test, respectively, which enables those institutions to receive favorable consideration for the provision of financial services and other activities that promote and expand financial literacy and education.

The OTS, like the other banking agencies, provides favorable CRA consideration for financial literacy programs. In order to receive favorable CRA consideration, community development services must benefit low- and moderate-income persons or neighborhoods, and must also have a financial component; for example, a qualifying community development service activity would include a situation in which a financial institution's officers provide training and technical assistance on financial analysis to a community-based organization that offers credit counseling to low-and moderate-income families.

OTS is routinely approached by non profit and commercial organizations that have developed financial literacy programs and are seeking guidance on whether or not their program qualifies for favorable CRA consideration. Accordingly, OTS devotes significant resources to the review of such requests and routinely provides guidance regarding whether the programs meet the regulatory requirements for favorable CRA consideration under the Community Reinvestment Act. Where issues or concerns are identified, OTS senior staff provide feedback. We are committed to providing such input in support of financial education initiatives.

**Estimates of Financial Literacy Among Adults in the United States**

You have asked that we provide data on the current level of financial literacy among U.S. adults. We do not maintain these data internally, but a review of current data from generally available sources shows that financial education training covering the basics of checking, savings, budgeting, and credit can positively change consumer behavior and improve financial confidence during a six- to twelve-month period following the course. For example, a recent study indicated that the rate at which survey respondents regularly saved money increased after taking a financial literacy course, and respondents were very likely to follow through on their goals of saving money in a savings account. Respondents were also much more likely to use a budget and regularly follow it.[2]

The Jump$tart Coalition's[3] biennial survey, funded by the Merrill Lynch Foundation, demonstrates that graduating high school seniors continue to struggle with financial literacy basics. High school seniors correctly answered only 48.3 percent of the questions. This mean score is a decrease from those posted by the senior class of 2006, which correctly answered 52.4 percent of the questions. While the financial literacy scores of the 2008 high school senior class rank lower than their 2006 peers measured in a national survey,[4] financial literacy scores are higher among college students.

This year marked the first-ever college students' survey. In comparison to their high school peers, participating college students answered 62 percent of the questions correctly. Scores among college students increased with their rank in school. For example, college freshman recorded a 59 percent score, while college seniors correctly answered 65 percent of the questions. The 2008 survey results underscore that while we must continue teaching personal finance to high school students, reinforcing and repeating financial literacy efforts at the college level yields positive results.

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[2] An April 2007 study conducted by the FDIC in cooperation with NeighborWorks America consisted of a three-part survey of participants in *Money Smart* courses across the country. FDIC engaged The Gallup Organization to assist with the development of the survey questions and to administer the survey. Overall, consumer confidence in financial matters substantially increased after completing the *Money Smart* course and was sustained over the survey period.

[3] Jump$tart is a national coalition of organizations dedicated to improving the financial literacy of kindergarten through college-age youth by providing advocacy, research, standards and educational resources. Jump$tart strives to prepare youth for life-long successful financial decision-making. The Jump$tart Coalition has grown to include more than 180 national partners and 48 affiliated state coalitions. During the Jump$tart survey's 12-year history, the data gathered have served as the basis for useful measures of what young adults do and don't understand about finances.

[4] The high school survey was given to 6,856 high school 12th graders in 40 states. The college survey was given to 1,030 full time students nationwide.

**Challenges Faced in Identifying Target Audiences and Developing Effective Delivery Channels for Financial Literacy Programs**

It is indisputable that the critical issues in today's economic climate have increased the need to ensure young people and older adults alike are provided with sufficient information to make informed decisions about financial products and services. Outreach strategies should be tailored to reflect the target population(s), including factors such as income levels, cultural or ethnic values, and other factors.

One way financial regulators can help to address the challenge of developing targeted materials and distribution mechanisms that reach the intended audience and create desired outcomes is to encourage regulated financial institutions to work in concert with community and consumer organizations and other private-sector participants. There are many existing cross-sector partnerships with the goal of fostering financial literacy.

Regulated financial institutions have detailed knowledge of their customer base and generally have well established delivery channels through which information, training, and technical assistance on a host of financial literacy topics can be disseminated. Banks and thrifts may also receive favorable CRA consideration for leveraging partnerships and establishing new alliances to promote financial education. OTS will continue to support our savings institutions in expanding this important effort.

**Specific Measures Used in Evaluating the Effectiveness of Financial Literacy and Education Initiatives**

During the OTS's participation in National Consumer Protection Week in February 2007, Director Reich noted that an important aspect of the OTS's efforts to upgrade our consumer awareness and protection program is monitoring emerging trends and evolving financial products, in order to develop appropriate and timely guidance for institutions and resources that assist consumers in making informed financial decisions.

OTS is developing strategies and tools to measure the impact of our financial literacy programs. We also continue to monitor market trends and their impacts on existing and evolving financial products. As members of the Committee are aware, we typically issue consumer regulations and companion guidance on an interagency basis to promote consistency for our regulated institutions. As necessary, however, we also issue consumer protection information to savings institutions, examiners, and consumer and community-based organizations, particularly as market conditions warrant. OTS has made available to our thrift institutions, for distribution and use in their local financial education campaigns, materials designed to enhance financial literacy.[5] We have also produced certain publications by partnering with the other banking agencies, which enables us to leverage our resources when developing materials on consumer-related topics. Several examples of such guidance are provided, below.

[5] Complete information on financial literacy and consumer-related issues and resources is available at the OTS Web site under "Consumer and Compliance/Consumer Inquiries" at www.ots.treas.gov.

**Guidance and Other Products to Promote Consumer Awareness and Enhance Financial Literacy**

The OTS participates with the other federal banking agencies in helping consumers make sound decisions when choosing mortgage products that fit their financial services needs. Some examples include the following:

- In December 2006, the OTS, in conjunction with the Federal Reserve Board, released the Consumer Handbook on Adjustable Rate Mortgages, also known as the "CHARM" brochure. The brochure provides information to consumers about the features and risks of adjustable-rate mortgage (ARM) loan products such as the potential for payment shock and negative amortization. In recognition of the growing use of nontraditional or alternative mortgage products that allow borrowers to defer payment of principal and, sometimes, interest, the CHARM booklet was revised to include discussions about "interest-only" and "payment option" mortgages. The brochure also includes general information for consumers on how ARMs work and discusses some of the issues that consumers may face when financing or refinancing their home with an ARM.

- The OTS, along with the other federal banking agencies, issued guidance in September 2006 to address risks associated with alternative mortgage products, entitled "Interagency Guidance on Nontraditional Mortgage Product Risks." The agencies also issued supplemental guidance in the form of recommended, but not required, illustrations of mortgage products designed to help consumers better understand the features of nontraditional mortgages like interest only loans. The illustrations include information about cost, terms, features, and risks. Financial institutions are encouraged to use this information to assist consumers in comparing various types of loan products and making informed decisions when choosing among various mortgage loan options. The final interagency guidance on the consumer illustrations for nontraditional mortgage products was published in May 2007. The agencies are currently finalizing illustrations that can be used to help consumers understand subprime hybrid ARMs and related mortgage products.

- OTS also released the brochure entitled "Interest-Only Mortgage Payments and Payment-Option ARMs – Are They for You?" that was issued jointly with the Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and the National Credit Union Administration. The brochure focuses exclusively on issues involving "interest-only" and "payment option" adjustable rate mortgages (ARMs).

  The consumer guide features a glossary of mortgage-related terms, a mortgage shopping worksheet to assist consumers in comparing the features of different mortgage loan products, information on how monthly payments could increase over the life of an ARM, and information on additional resources available to

consumers to help them make informed choices concerning different types of ARMs.

- "A Consumer's Guide to Mortgage Refinancings"

  The OTS is participating with the Federal Reserve Board to update this guide, first published in 1999. Although the information is intended for homeowners generally, the revised brochure is particularly useful as borrowers with higher-cost loans seek to refinance into more affordable mortgage products. The revised brochure is scheduled for publication in May/June 2008.

OTS has also issued guidance on important consumer issues. Examples include the following:

- In February 2007, the OTS released a consumer information brochure on the purchase and use of gift cards. The brochure, entitled "Consumer Fact Sheet: Buying, Giving, and Using Gift Cards," provides information to consumers regarding gift cards issued by financial institutions. The brochure is useful both to consumers and institutions in working with their customers to improve financial awareness about this increasingly popular financial product.

  The brochure highlights various issues to consider when buying and using gift cards, including understanding applicable fees, such as fees imposed for inactivity or non-use of a gift card, processing fees for purchasing the card, monthly maintenance fees, and fees that may apply if the card is used to obtain cash from an ATM. The brochure also reminds consumers about the importance of card security, including asking a sales clerk to verify the stored amount when a card is purchased, and remembering that a gift card should be treated the same as cash. Finally, the brochure provides general advice on addressing problems and resolving complaints about a gift card.

- Publication of *Community Liaison* newsletter, 2007 and 2008

  In the summer of 2007, the OTS resumed publication of our Community Affairs newsletter, *Community Liaison*. As mortgage loan delinquencies and defaults rose and the number of foreclosures mounted, the newsletter focused on products, programs and services that promote and sustain affordable housing, emphasizing delinquency intervention and foreclosure prevention strategies. A featured article described mortgage foreclosure rescue scams and advised consumers about how to avoid unscrupulous practices and obtain responsible foreclosure prevention assistance.

  In March 2008, as part of this year's National Consumer Protection Week activities, OTS published another edition of the newsletter that expanded on the theme of sustainable homeownership and foreclosure mitigation options, commensurate with the growing problems in the subprime mortgage market. The

lead article described the foreclosure avoidance initiative jointly headed by the Department of Treasury and the Department of Housing and Urban Development and provided information about the HOPE NOW alliance, the HOPE hotline, and the FHASecure program. Recognizing that the elderly represent a vulnerable segment of the population, this issue also discussed various benefits and costs that senior homeowners should consider when determining the suitability of reverse mortgage products, which have become increasingly popular and more widely marketed.

Each issue includes a resource directory of Web sites that provide additional information and assistance to financial institutions and consumers alike. We have included a copy of the most recent edition with our written statement.

**Assessing the Impact of the *National Strategy for Financial Literacy* on OTS's Efforts**

In January 2007, Director Reich noted in remarks made to members of the FLEC that the *National Strategy for Financial Literacy*, published in April 2006, provided a valuable framework for accomplishments by the Treasury Department and other FLEC members. The accomplishments include: (1) Working with the Ad Council to develop a public service announcement focusing on increasing credit literacy among young adults; (2) Widespread distribution of a DVD on identity theft made available to the public through the 1-888-MyMoney hotline and the MyMoney.gov Web site; (3) Meetings hosted by the Department of Housing and Urban Development that promoted affordable homeownership; and (4) A series of regional conferences co-sponsored by the Treasury Department and the federal banking agencies to explore effective ways to reach the unbanked market.

The OTS will continue to participate as an active member of the FLEC in Washington, DC and throughout the country via our regional office staff. The National Strategy has helped shape our regional outreach efforts by working collaboratively with FLEC members to maximize our effectiveness in implementing the Strategy's goals and objectives. The National Strategy also provides a useful blueprint by which to exchange ideas and identify and implement best practices. The members of the FLEC should continue to explore constructive ways to harness the energy generated from a coalition of federal agencies motivated to achieve the purpose of promoting and expanding financial literacy.

Examples of several OTS's activities around the country in support of financial education are the following:

**Northeast**

In New York City, regional staff, in partnership with the Financial Literacy and Education Commission and other federal banking regulators, organized an Eastern regional conference on "Reaching Unbanked People." The conference attracted over 300

attendees, including bankers, representatives from community-based organizations, federal, state and local government representatives, students and academicians.

The event stressed the importance of financial literacy of the various segments of the unbanked and underbanked population and provided a forum for discussing strategies to reach the target group. Some of the topics that were covered during the day-long event included reaching the immigrant market with financial services, strategies for reaching youth, strategies for building community financial institutions, asset-building strategies, and lessons that mainstream financial institutions can learn from alternative lenders.

**Southeast**

OTS regional staff participated in a consumer education event in connection with Money Smart Week, sponsored by the Chicago Federal Reserve Bank. Ten regulatory agencies, both federal and state, distributed material. The OTS distributed material regarding mortgages and gift cards.

**Midwest**

OTS is participating in the FDIC's Alliance for Economic Inclusion (AEI) in Austin and Houston, TX. The mission of AEI is in part to improve the economic well being of low- and moderate-income individuals and families including the underserved and underbanked. Financial literacy efforts are included in the AEI mission. One of the AEI working groups is the Asset Building/Financial Education committee. The working group produced information on several financial literacy programs and services available to AEI members and people they serve within Texas.

**West**

OTS staff participated in homeownership preservation workshops that highlighted financial education and consumer credit counseling training in San Francisco, San Diego, Los Angeles, and Phoenix. OTS staff also participated in the Los Angeles Neighborhood Housing Services homeownership preservation fair in Los Angeles, CA, and in the National Financial Education Network Summit in Seattle, WA.

**Recommendations to Improve the Effectiveness of the FLEC**

As I have noted, under the auspices of FLEC and consistent with the National Strategy issued in 2006, member agencies have worked in a cooperative and coordinated manner to implement the statutory objectives of increasing financial literacy in America. We recommend the FLEC continue to monitor, track and assess the impacts of specific initiatives undertaken by its members, and examine ways to increase the participation and contribution of other public, private and nonprofit resource providers in accomplishing its mission.

On January 22, 2008, the President created the Advisory Council on Financial Literacy within the Treasury Department. The Advisory Council comprises various representatives from the private sector who are involved with the delivery of financial education throughout the country. The Council is charged with working closely with FLEC members and other organizations in this mission to obtain information to help shape future policies. The OTS strongly supports the Advisory Council in fulfilling its mission.

Similarly, the diverse and extensive experiences of the Advisory Council membership, representing the financial services industry together with leaders of consumer organizations, should help determine the direction, goals, and strategies set forth by the FLEC. All parties should work in tandem to the maximum extent practicable to accomplish our mutual objectives.

**Additional Legislative or Regulatory Changes to Improve Financial Literacy and Education**

OTS strongly supports the efforts of the Federal Reserve Board and others to revise regulations to improve the quality of information contained in consumer disclosures for financial products and services. An important element of this goal is ensuring not only that the content of the information is timely and comprehensive but also that the information is "user-friendly" and states the risks, costs and benefits to consumers in a clear and straightforward format.

Despite documented low levels of financial literacy in the United States, only 18 states include financial education within required K-12 classes. More states should consider making personal finance a requirement for all students who seek a high school diploma. An early and sustained investment in financial education lays the groundwork for individual prosperity and economic independence. It is likely that financial products and the delivery systems that provide them will become even more complex in the coming years, so providing an early financial education will help ensure tomorrow's adult consumers have a good foundation with which to function in an increasingly complicated and sophisticated marketplace.

The Government Accountability Office (GAO) recently issued a report on the progress and effectiveness of the FLEC and the National Strategy. [6] The GAO's recommendations include augmenting the Strategy to reflect more specific performance measures and broadening efforts to develop sustainable partnerships involving FLEC member agencies and private and nonprofit entities. As we have noted, we believe such cross-sector collaboration is indispensable to maximize the reach and impact of financial literacy programs and activities.

Many outstanding financial education courses and programs exist. The challenge is sharing the best aspects of such programs with significant segments of U.S. consumers.

[6] GAO-07-100: Financial Literacy and Education Commission – Further Progress Needed to Ensure an Effective National Strategy.

OTS recommends a study to explore ways to bring the most successful financial education programs to scale on a national basis in order to reach and positively impact as many Americans as possible.

**Conclusion**

OTS is fully committed to working with the savings institutions industry to help leverage financial literacy programs and resources to benefit their customers and their long-term interests. OTS will also continue to work independently, in collaboration with nonprofit organizations where possible, and under the auspices of the FLEC to explore ways to strengthen financial awareness and help consumers make informed choices. OTS stands ready to continue the dialogue in this important area. We reaffirm our support of concerted efforts by the FLEC, the Advisory Council and others to bring financial literacy programs to scale in order to reach as many Americans as possible.

Community Liaison

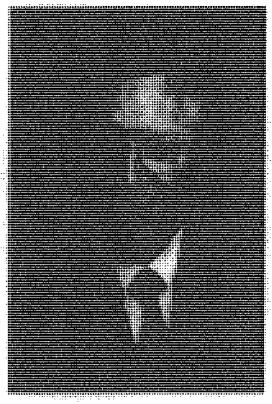
Volume No. 2008, Issue 1 Community Affairs Newsletter

# From the Director's Desk

*John M. Reich, Director, Office of Thrift Supervision*

The OTS and the other banking agencies have issued important guidance to the industry and our examiner workforce on nontraditional mortgage products, subprime lending and assisting financially troubled borrowers. At OTS, the Compliance Policy, Compliance Examination Operations, Consumer Protection and Community Affairs functions are under one "umbrella," coordinated in Washington, DC by Montrice G. Yakimov. These functional areas are substantially interrelated and comprise various complementary activities. As such, we are uniquely positioned to leverage our resources, which create an important multiplier effect for OTS and the institutions we supervise.

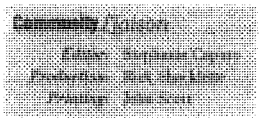
This edition of ***Community Liaison*** highlights issues that cross those functional boundaries, a type of interdisciplinary approach that couples significant compliance policy developments with outreach activities to thrift institutions and community and consumer organizations. We have chosen to publish the newsletter to mark National Consumer Protection Week (NCPW), held March 2 through March 8, 2008, which showcases broad-based consumer protection and financial education efforts throughout the country. Priorities for NCPW this year include the promotion of homeownership and counseling programs and the provision of information to help borrowers recognize and avoid abusive lending practices, two key areas whose importance to consumers is even more critical in the current mortgage environment.



## *What's in This for You?*

In this issue, we provide information on the following:

- The joint Department of Housing and Urban Development and the Department of Treasury foreclosure avoidance initiative, which reaches out to community groups that provide foreclosure counseling and refinancing opportunities and products, including HUD's enhanced refinancing program, FHASecure. The article also discusses the nexus between foreclosure intervention and proposed changes to the Community Reinvestment Act (CRA), which would provide favorable consideration for a variety of activities that benefit financially distressed homeowners (see page 3).
- The critical role that NeighborWorks®America plays in providing foreclosure prevention counseling and related assistance to struggling homeowners. As a result of their longstanding accomplishments in this area, they are a pivotal entity in the multi-partner foreclosure avoidance initiative, HOPE NOW (see page 6).
- The opportunities — and important issues to consider — regarding FHA-insured reverse mortgage products available to senior citi-



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zens, and a discussion of one thrift's use of reverse mortgages (see pages 8 and 9).

- Policy guidance issued by the regulatory community during the past few months that also underscore key components of President Bush's mortgage foreclosure initiative (see page 14).

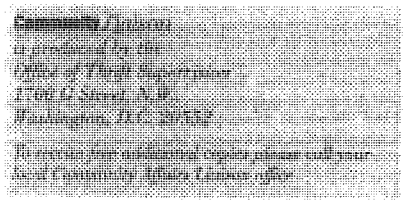
- A resource directory that lists Web sites that provide more information on the major topics covered (see page 16).

- We are also introducing a feature called "CRA Spotlight," which profiles CRA-eligible activities that present opportunities for our institutions, particularly smaller thrifts seeking community development lending, investment and service activities. The Senior Housing Crime Prevention Foundation serves as a conduit for banks and thrifts to make both loans and investments, and provide related services, which benefit senior housing residents. Since its inception, the program has enjoyed an effectiveness rate greater than 90 percent in combating elder abuse, neglect, fraud and theft (see page 11).

It is important that as regulators and policymakers focus on preventing avoidable foreclosures, we avoid blurring the line between responsible subprime lending and predatory lending. The objective should be to prevent predatory lending and mortgage fraud without constraining legitimate subprime lending. Poor underwriting and abusive lending practices have been problematic; subprime lending, per se, has not.

When we reintroduced ***Community Liaison*** in the summer of 2007, I noted the leadership posture of the thrift industry throughout the years in promoting and financing homeownership options. Despite the challenges they confront in today's lending environment, we expect our institutions to continue to deploy their resources and expertise to meet the credit needs of borrowers with appropriate products and services that help ensure the American dream remains within reach.

We hope you find the newsletter helpful and welcome your feedback and comments. ■



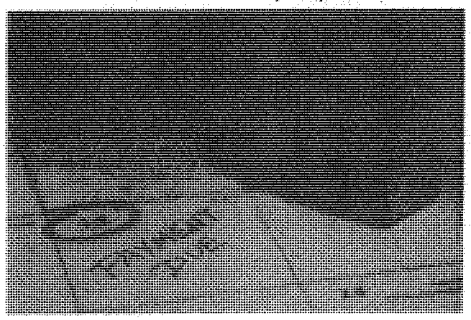
# Finding Solutions:
## *Responding to Rising Foreclosures*

*Stephanie Caputo, Community Affairs Specialist, Washington, DC*

Foreclosures create seriously adverse consequences for families and communities.[1] Analysts have questioned the sufficiency of underwriting transparency regarding the actual creditworthiness of many borrowers, and many consumer advocates have questioned the appropriateness of disclosures regarding certain mortgage products, particularly loans made to subprime borrowers. Beyond the challenges to individuals and communities, disruptions facing the mortgage markets are broad, also impacting investors both domestically and internationally.[2]

The federal government, the financial services industry, and consumer advocates are implementing strategies and programs, which include the active participation of the private and nonprofit sectors, to address this growing problem.[3] Some initiatives are:

- The Department of Housing and Urban Development (HUD) announced changes in the Federal Housing Administration (FHA)-insured loan program to enable more people to qualify for FHA-insured loans. HUD's program, FHASecure, is currently underway, and is expected to help up to 240,000 homeowners refinance into FHA-insured mortgages in 2008 (see FHASecure: A Good Way to Refinance Out of Trouble, page 5).



- The federal banking agencies have published policy guidance to communicate supervisory expectations relating to mortgage underwriting and consumer protections. (See Compliance Roundtable, page 14, for additional information on the guidance).

- The OTS is participating with the Federal Reserve, the Federal Trade Commission, state agencies represented by the Conference of State Bank Supervisors, and the American Association of Residential Mortgage Regulators to conduct targeted consumer-protection compliance reviews of selected nondepository lenders with significant subprime mortgage operations.[4] Project participants will share information, take appropriate corrective action, and explore ways to increase cooperation to ensure effective supervision of these entities. In applying a coordinated review program, the regulatory agencies will enhance their ability to more consistently assess subprime mortgage lending practices across a wide range of mortgage lenders and other industry participants.

[1] The Government Accountability Office (GAO), in its report issued October 2007 on home mortgage defaults and foreclosures, cited a March 2007 study by Dr. Christopher Cagan entitled "Mortgage Payment Reset: The Issue and the Impact." The study estimated about 13 percent of adjustable-rate mortgages (ARMs), or about 1.1 million loans originated from 2004 through 2006, are projected to foreclose over a seven-year period as a result of interest rate resets. The Center for Responsible Lending, a consumer advocacy organization, has estimated that approximately 2.2 million subprime borrowers are facing foreclosure. According to RealtyTrac data, the number of foreclosure filings reported in December 2007 was up 97 percent from the December 2006 figure. The number of fourth-quarter 2007 foreclosure filings was 86 percent higher than the total number in fourth-quarter 2006.

[2] In remarks made to the National Association of Mortgage Brokers, February 6, 2008, OTS Director John M. Reich noted that adjustable-rate mortgage resets are projected to continue at high levels, with an estimated 1.8 million owner-occupied subprime mortgage resets expected in 2008 and 2009. Record-high home price appreciation and the flawed assumption that house prices would continue to rise rapidly have contributed to the current subprime delinquency crisis. Another major contributor was poor underwriting and, in some cases, fraud.

[3] HUD News Release No. 07-123, issued August 31, 2007.

[4] Per OTS press release 07-048, issued July 17, 2007. In remarks delivered in October 2007, Federal Reserve Governor Randall Kroszner noted that independent mortgage companies, specifically nondepository institutions, made approximately 46 percent of the higher-priced first-lien mortgages in 2006. In its October 2007 report on default and foreclosure trends, GAO noted that, in 2005, brokers accounted for about 60 percent of originations in the subprime market, compared with about 25 percent in the prime market.

- In October 2007, Secretary of the Treasury Henry M. Paulson and HUD Secretary Alphonso Jackson launched a private sector national alliance called HOPE NOW. The alliance includes mortgage servicers, housing counselors, investors, lenders, and trade associations that will maximize outreach efforts to homeowners who are in distress.[5] Among other activities, the newly created collective organization is conducting a direct mail campaign to urge troubled borrowers to contact their lenders or credit counselors. (See An Alliance for Hope, page 6).

- NeighborWorks® America is a national partner in the HOPE NOW collaboration, and the group's foreclosure hotline — 1-888-995-HOPE, discussed below — will serve as an ongoing resource for consumers at risk of foreclosure. (See also the Resource Directory, page 16, for additional information).

## *CRA's Role in the Foreclosure Mitigation Initiative*

The OTS and the other federal banking agencies recognize that the Community Reinvestment Act (CRA) is an important incentive to encourage the participation of regulated financial institutions to address current housing and lending challenges. The federal banking agencies recently published an updated version of the Interagency Questions and Answers (Q&As) regarding Community Reinvestment, which includes a number of proposed and revised Q&As that address how financial institutions could receive favorable CRA consideration for various community development loans, qualified investments, and community development services that benefit financially distressed homeowners.[6] (See also Compliance Roundtable, page 14).

The agencies propose giving positive CRA consideration to the following activities:

- Investment(s) in a nationwide fund, including an example of a community development fund that provides foreclosure relief to low-and moderate-income (LMI) homeowners;[7]

- Providing credit counseling, homebuyer and home-maintenance counseling, financial planning or other financial services education to promote community development and affordable housing, including credit counseling to assist low- or moderate-income borrowers in avoiding foreclosure on their homes. The agencies are revising the examples of community development services to include those activities;[8]

- "Responsive lending activities," which include establishing loan programs that provide relief, through loan refinancings, restructures, or modifications, to homeowners who are facing foreclosure on their primary residences. The agencies encourage institutions to develop and participate in such programs, consistent with safe and sound lending practices.[9]

Expanding CRA consideration for these activities may prove particularly useful for smaller thrift institutions that are evaluated under the Intermediate Small Savings Association (ISSA) test. The ISSA test evaluates the performance of thrifts with total assets between $250 million and $1 billion, adjusted annually, in the provision of community development loans, qualified investments, and community development services. Smaller thrifts play a pivotal role in assisting homeowners in their communities, and the proposed CRA changes will reinforce their commitment to those efforts in the current lending environment.

## *NeighborWorks® America — A Leader in Foreclosure Prevention*

NeighborWorks® America — created in 1978 as the Neighborhood Reinvestment Corporation — works with local communities to establish effective partnerships with the public and private sectors. These community-based, nonprofit entities comprise the NeighborWorks® network. Nationally, there are 235 NeighborWorks® organizations serving approximately 3,000 urban, suburban, and rural communities. All of the federal banking agencies, HUD, and the National Credit Union Administration serve on NeighborWorks® America's Board of Directors.

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[5] On February 12, 2008, six of the largest servicers, representing 50 percent of the mortgage market, announced the launch of Project Lifeline. This initiative expands on the original HOPE NOW activities, and is targeted to all homeowners who are 90 days or more delinquent on their mortgages, regardless of whether the loans are prime or subprime. The initiative provides for a 30-day suspension of foreclosure proceedings, during which time the lenders and borrowers will work out more affordable financing options. The six participants are Bank of America Corp., Citigroup Inc., Countrywide Financial Corp., JPMorgan Chase & Co., Washington Mutual Inc., and Wells Fargo & Co.

[6] The updated Q&As were published for comment July 11, 2007. The comment period closed September 10, 2007. The final Q&As have not yet been published.

[7] See proposed Q&A §___.23(a)-2.

[8] See revised Q&A §___.12(i)-3.

[9] See revised Q&A §___.22(a)-1.

# FHASecure: A Safe Way to Refinance Out of Trouble

### *What is FHASecure?*

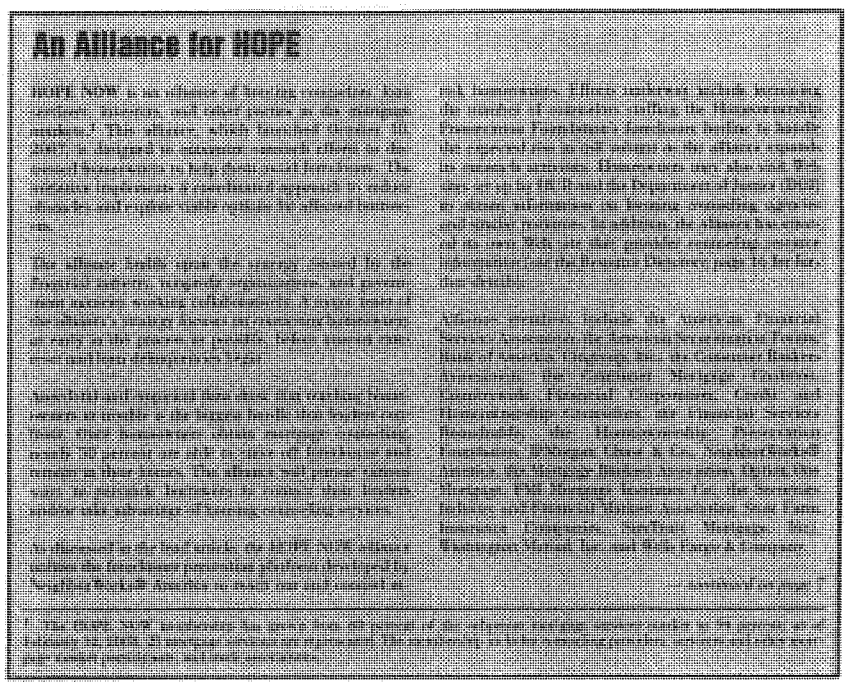
### *Eligibility Highlights of the FHASecure Initiative*

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### *Advantages to Borrowers*

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### *Advantages to Lenders*



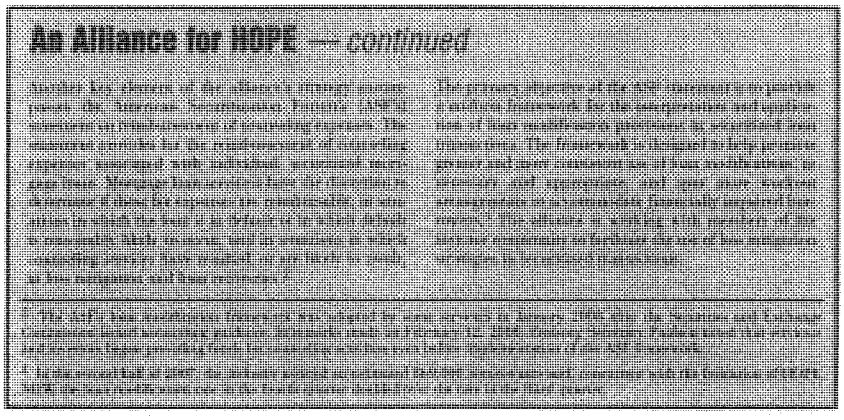

The HOPE NOW alliance is drawing upon the experience of NeighborWorks® America.[10] NeighborWorks® America s has been a leader in homeownership education and counseling and sustainable homeownership efforts for over a decade. Since 1993, the NeighborWorks® network has educated and counseled more than 700,000 and assisted more than 150,000 households to become homeowners. NeighborWorks® America also advances quality national standards and best practices for homeownership education and counseling through the NeighborWorks® Center for Homeownership Education and Counseling.

### *Center for Foreclosure Solutions: A Ready Response*

The Center for Foreclosure Solutions (CFS), an initiative of NeighborWorks® America, was created to preserve homeownership in the wake of rising foreclosure rates. In conjunction with national nonprofit, mortgage and insurance partners, CFS builds capacity among foreclosure counselors around the nation, conducts public outreach campaigns to reach struggling homeowners, and researches local and national trends to develop strategic solutions. In cities and states with high rates of foreclosure, CFS works with local

[10] In response to the nationwide subprime foreclosure challenges, Congress approved legislation signed by President Bush on December 26, 2007, which authorized $180 million for the National Foreclosure Mitigation Counseling (NFMC) Program. The appropriation is designed as a one-time infusion of funds to support a rapid expansion of foreclosure intervention counseling capacity on a short-term basis by HUD-approved Housing Counseling Intermediaries and State Housing Finance Agencies. NeighborWorks® America was chosen to administer the NFMC Program, with priority consideration for use of the funds given to rural and urban areas demonstrating the greatest need.

## An Alliance for HOPE — continued



leaders to create sustainable foreclosure intervention programs. Already CFS has reached thousands of homeowners.

CFS builds on NeighborWorks® America's profile and track record as a leader in sustainable homeownership efforts. CFS conducts a wide and complementary array of programs and activities, including the following:

- **Partnership with the Homeownership Preservation Foundation** — NeighborWorks® partnered with the Homeownership Preservation Foundation, which established the national toll-free foreclosure prevention hotline, 1-888-995-HOPE. The hotline is staffed by HUD-approved housing counseling agencies that provide assistance 24-hour/7-days per week. Counseling is available in English and Spanish. Callers receive budgeting assistance and expert guidance and are linked, as appropriate, with their lender, a local NeighborWorks® organization or other HUD-approved nonprofit organization with certified post-purchase housing counselors for further assistance. More than 50,000 homeowners received counseling in 2007.

- **Public Awareness Media Campaign** — A multimedia public education campaign, developed in partnership with the Ad Council, is designed to reach homeowners in financial distress and spur them to take action by calling the HOPE hotline. The campaign's theme is "Nothing is worse than doing nothing." Outreach is conducted through TV, radio, print advertising, a dedicated Web site (refer to the Resource Directory, page 16), and brochures and outdoor media, such as billboards. Nearly 200 local groups, task forces, and municipalities have co-branded these advertisements.

- **Building Foreclosure Counseling Capacity** — The NeighborWorks® Center for Homeownership Education and Counseling provides training and certifies housing counselors that furnish post-purchase assistance to homeowners in financial distress. Over the next year, training will be provided to 5,000 housing counselors.

- **Supporting Local/Regional Foreclosure Coalitions/Task Forces** — The Center for Foreclosure Solutions provides technical assistance and small, capacity-building grants to local groups responding to the foreclosure crisis. In fiscal year 2007, NeighborWorks® America made $2 million in capacity-building grants to more than 30 local and regional nonprofit organizations that are delivering foreclosure intervention counseling activities.

- **Outreach to Borrowers Holding Mortgages with Resetting Interest Rates** — The Center for Foreclosure Solutions is developing targeted outreach to borrowers facing negative impacts from adjustable-rate mortgage loans with rates that reset from lower initial rates to higher rates.

In addition to its partnerships with the nonprofit community, NeighborWorks® America is working with representatives of the financial services industry to examine the foreclosure crisis and implement additional measures.

As these and other legislative and regulatory initiatives evolve to mitigate foreclosure, stop abuses, and reassure the capital markets, the OTS will ensure that access to credit by worthy borrowers is not cut off, and community banks that were not responsible for the creation of these problems are not penalized ■

# Reverse Mortgages: *Information to Consider on Benefits and Risks*

*Francis Baffour, Community Affairs Liaison, Northeast Region*

Some experts note that workers in America may not have sufficient savings to live comfortably during their retirement. Many homeowners, however, do have sufficient equity in their homes that can supplement their retirement income. This group of homeowners includes the elderly; in fact, according to a 2006 survey by the Pew Research Center, 72 percent of people aged 65 and older have no home mortgage; this figure contrasts with the percentage — 32 percent — of all homeowners who do not have a mortgage on their home. The same study showed that 79 percent of seniors had experienced home value appreciation, which was particularly strong over the past several years.

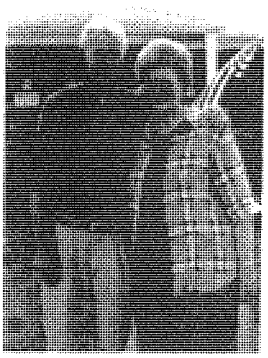
There is a financing option that is becoming increasingly popular: seniors now have the opportunity to tap into their home equity through reverse mortgage loans.

This article explores who qualifies for reverse mortgages, how payments may be structured, and the advantages, as well as potential risks, of the product.

## *What are Reverse Mortgages?*

The "baby boom" generation has started entering retirement age, and many analysts suggest that the so-called boomers hold most of their savings in the form of home equity. As of July 1, 2005, the U.S. Census Bureau estimated the baby boom generation — people born between 1946 and 1964 — to be 78.2 million people. The Census Bureau also estimated that 7,918 boomers turn 60 each day, which translates to 330 persons every hour.

According to Social Security Administration statistics, in 1935, life expectancy for people who were 65 years old was 12.5 years. Today, it is approximately 18 years. Thus, as the aging population lives longer, retirees will also have to depend much longer



on traditional sources of income, such as social security and pension funds, and may well find themselves turning to other funding sources, such as reverse mortgages.

Reverse mortgages are loans that allow homeowners to convert equity in their homes into cash, and at their option, provide them with periodic payments for as long as they live in their homes. Reverse mortgages may not be appropriate for some homeowners, such as those retirees who have pensions and other investments that provide adequate income for their lifestyles. Other retirees, however, such as those with limited income, may benefit. As this population continues to age and retire from the workforce, many will depend on their accumulated home equity savings as a source of income.

## *Potential Benefits*

Many financial institutions have started to market reverse mortgages to seniors. The U.S. Department of Housing and Urban Development (HUD)'s Federal Housing Administration (FHA) reverse mortgage program is the most widely used product in the country.[1] Known as the Home Equity Conversion Mortgage (HECM), the mortgages are provided by FHA-approved private lenders and receive the benefit of FHA-insurance. However, only a small number of OTS-supervised institutions offer the program[2]; see page 9 for an example of one thrift's use of the product.

Fannie Mae has a similar reverse mortgage program called the Home Keeper® Mortgage. There are also variations of the Home Keeper® Mortgage that have slightly different features. (See the Resource Directory, page 16, for additional information.)

[1] According to May 2006 testimony by Peter H. Bell, President, National Reverse Mortgage Lenders Association, before the U.S. Senate Subcommittee on Housing and Transportation, the market share for FHA-insured HECMs is approximately 90 percent.

[2] Per listing of FHA-approved HECM lenders. Refer to the Resource Directory for details.



## Reverse Mortgage Products: One Thrift's Growing Market

Both FHA's and Fannie Mae's program guidelines require that qualified homeowners be at least 62 years old and have little or no mortgage balances on their properties.[3] Additionally, applicants for HECMs and Fannie Mae reverse mortgages are required to undergo an educational mortgage counseling session prior to the processing of the loan application. (Fannie Mae is not a direct lender; it purchases the reverse mortgage loans from its approved lenders for sale to the secondary market.)[4]

Homeowners with reverse mortgages can receive their payments in one of the following forms (items #2 through #6 represent the payment plan options for reverse mortgage proceeds; lump sum proceeds are not characterized as a payment plan):

- Lump sum cash payment at closing of the transaction;

*This article explores who qualifies for reverse mortgages, how payments may be structured, and the advantages, as well as potential risks, of the product.*

- Monthly or periodic cash advances for as long as the borrower uses the property as the primary residence ("tenure" payments);
- Monthly or periodic cash advances for a specific period of time ("term" payments);
- A line of credit having a specific dollar amount, from which the borrower determines when to withdraw, and the amount of the withdrawal;
- A combination of a line of credit and regular monthly payments for as long as the borrower lives in the primary residence ("modified tenure"); and
- A combination of a line of credit

[3] The first and second lien position is required for the HECM; therefore, the program requires existing mortgages to be repaid in full, using the reverse mortgage proceeds, or subordinated.

[4] Wells Fargo is the largest producer of government-insured reverse mortgages, with a 21.6% share of the 99,870 loans originated since the beginning of October 2006 through August 2007. Financial Freedom Senior Funding Corp., a unit of IndyMac Bancorp Inc. of Pasadena, CA, is second, with a 10.94% share. Third-place Seattle Mortgage has a 2.75% share. (Statistics provided by American Banker, October 1, 2007.)

and a fixed term of monthly payments ("modified term").

Homeowners have the option of adjusting these payment structures at any time. The amount of the cash proceeds received depends on the age of the borrower(s), prevailing interest rates, and the value of the property. Simply stated, the older the borrower, and the higher the property value, the more cash is available.

Moreover, reverse mortgages are nonrecourse, which means that borrowers are not personally liable in the event of default, and cannot be required to pay off the loan even if the amount of cash received exceeds the value of the primary property. When the property is no longer the primary residence of an HECM borrower, for reasons such as the home is sold, the borrower dies, or the homeowner vacates the property for a period of 12 months or longer, the mortgage becomes due and payable in full. The amount due would include the outstanding mortgage balance, accrued interest, and other finance charges or fees.

It is critical that prospective borrowers receive independent financial counseling on the financial implications of, and alternatives to, HECMs.[5] Calculating the costs of the loan and determining the most advantageous way to structure the payout of the funds to the borrower present significant issues, particularly when comparing product features and payment options offered by different lenders. Typically, questions will arise about the impact of the reverse mortgage payment stream on certain public benefits, such as Supplemental Social Security Income (SSI) and Medicaid.

The disclosures that lenders provide to potential borrowers must note that HECMs may have tax consequences, affect eligibility for assistance under federal and state programs, and have an impact on the estate and heirs of the homeowners. The lender can provide a listing of housing counseling agencies, or the borrower may consult the HUD Web site. Seniors can also contact the American Association of Retired Persons (AARP) for the names of qualified reverse mortgage counselors. (See Resource Directory, page 16, for more information on finding housing counseling assistance).

Counseling will also help inform the borrowers' decision-making process and prevent them from falling victim to abuse and scams. Seniors have lost their homes as a result of unscrupulous lending practices and have even had family members take financial advantage of them.

HUD emphasizes that the flexibility of HECMs is a major benefit for seniors. Holders of reverse mortgages may also refinance their loans; financial counseling is required for product refinancings, unless certain conditions are met.

Although HUD does not have current statistics for homeowners in distress who have applied for reverse mortgages, troubled homeowners who meet eligibility requirements may use reverse mortgage payments to address financial hardships (See Reverse Mortgages: One Thrift's Growing Market, page 9).

## *Not for Everyone: Risks Associated With Reverse Mortgages*

Reverse mortgages are not suitable for all homeowners. While there are significant benefits to using the product, there also are disadvantages for some borrowers.

The complexity of reverse mortgage transactions, particularly for uninformed borrowers, is one drawback to product use. Prospective borrowers should carefully review the payment structure and method for receipt of the funds with the financial counselor to ensure it suits their particular situation.

The costs of reverse mortgage products are generally high compared to those associated with traditional mortgages. Costs include origination fees, closing costs, servicing fees and mortgage insurance premiums.[6] A 2 percent mortgage insurance premium fee is charged upfront at closing, and a small percentage is added to the interest rate that is charged on the rising loan balance.

Reverse mortgage loan origination fees are based on the home's value, which typically is greater than the loan amount. Thus, the origination fees are greater than those associated with other mortgage loans. Interest rates are also generally higher than the average 30-year mortgage loan.[7] Closing costs can range between $7,000 and $15,000, depending on the amount of reverse mortgage proceeds.[8]

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[5] It is advisable for prospective borrowers to consult with an attorney or financial adviser about tax implications specific to their circumstances.

[6] The FHA insurance protects the lender if the loan balance exceeds the value of the property, provides a higher loan principal amount, and ensures payment to the borrower in the event the lender defaults.

[7] Lenders now have the option of using different indices, including LIBOR and the rate on one-year Treasury securities. The margin may vary depending on the lender and investor(s).

[8] Estimates provided by HUD.

A homeowner who may sell or move out of the property within a few years of taking out a reverse mortgage loan may not find the product appropriate because of the high associated costs. Borrowers in those situations would owe substantial amounts of fees and interest but may not have received a sufficient amount of cash advances to offset these costs, which is an important factor in the decision-making process. As with any loan scenario, however, lender fees and third-party costs will vary, so HUD and AARP advise prospective borrowers to shop around and negotiate for the most favorable deal.

In sum, borrowers should be prepared to work closely with certified financial counselors and approved lenders to perform the necessary cost/benefit analysis of different reverse mortgage products, and, based on their financial circumstances, determine the most advantageous ways to structure their payment plan options ■

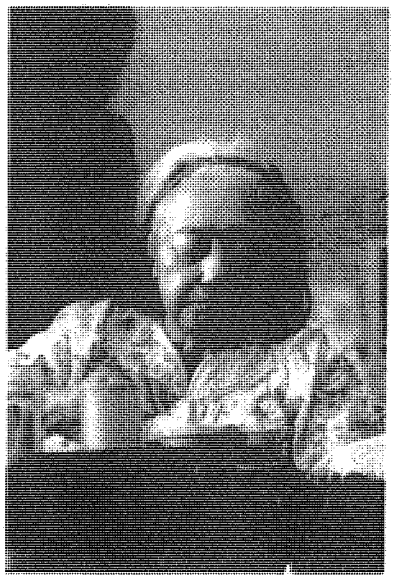
# CRA Spotlight

## *Combating Elder Abuse*

*A CRA-Eligible Program Helps Prevent Crime in Senior Residential Communities*

Spend a few minutes speaking with Peter Gwaltney, Vice Chairman and Chief Executive Officer of the Senior Housing Crime Prevention Foundation, and you start sharing his enthusiasm for programs that make a difference, improving the quality of life for many elderly people.

Spend a few more minutes reading the examples of how relatively small amounts of money provided by financial institutions have generated very positive outcomes and your enthusiasm quickly turns into admiration and — if you're a banker — very likely translates into financial support, too.



The Senior Housing Crime Prevention Foundation (SHCPF), located in Memphis, Tennessee, is a nonprofit 501(c)(3) corporation. Its mission is to reduce crime in senior housing facilities and provide ongoing, effective crime prevention programs that provide safe, secure and high-quality living environments for residents.

SHCPF has established and implemented the Senior Crimestoppers Program in senior residential facilities, which has significantly contributed to accomplishing that mission. Major program activities include:

- Providing lock boxes to residents and their families for storage of personal items of value;
- Operating a 24-hour per day toll-free call center for callers, whose anonymity is safeguarded, to report crimes in the nursing home or other senior facility;[1]
- Paying up to $1,000 in rewards for information that helps resolve crimes; and
- Offering crime prevention counseling and related training materials to help deter criminal activity against residents, staff members and the facility.

[1] Two incidents reported in September 2007: In a nursing home in Denver, CO, an anonymous tipster reported seeing an employee physically assaulting a patient. Following an investigation, the employee was identified and a $1,000 reward was paid. Another tipster reported two people selling drugs in the parking lot of a HUD-assisted project in Illinois. One community resident was identified and police made the arrest. A $500 reward was paid to the tipster.

Other important elements of program sponsorship are the annual Time of Your Life "nostalgia" video for the enjoyment of the residents and the annual Wish Comes True grant program, which provides residents with simple, yet meaningful, items or services that they would most like to have for them or others in their family or community. These components of the program create valuable "touch points" for participating financial institutions to interact with their sponsored facilities and residents.

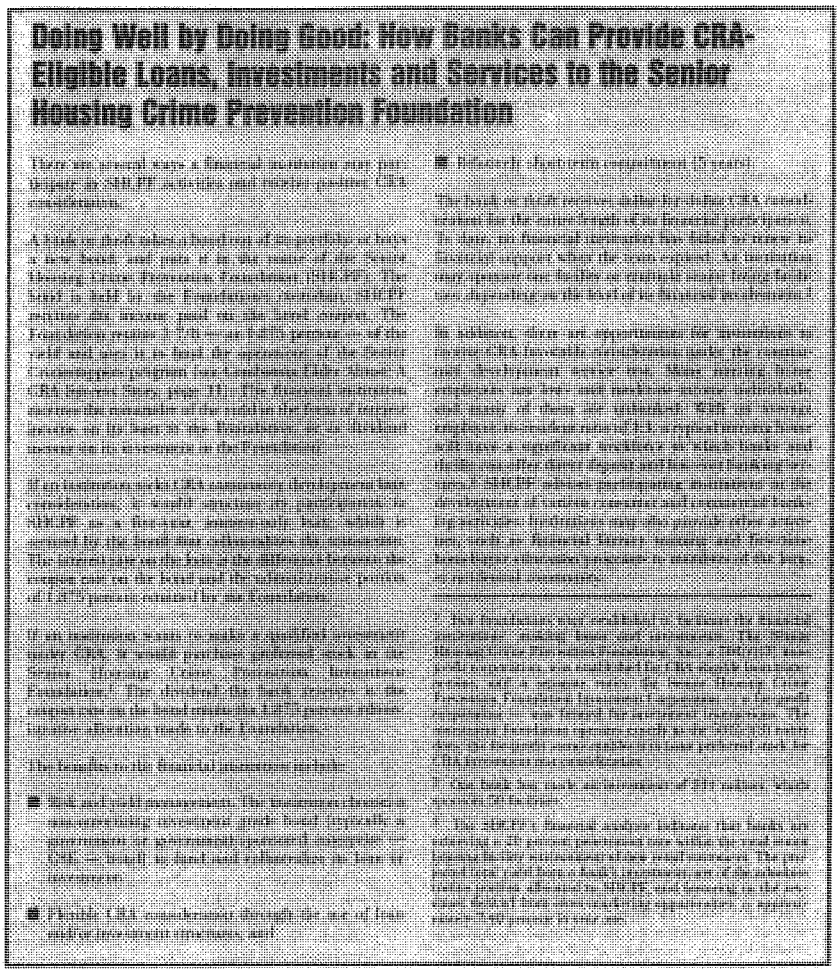
*Statistics maintained by SHCPF show that the program's success rate in reducing crime incidents in participating facilities has reached or exceeded 90 percent nationally since its inception, currently hovering at 92 percent.*

Statistics maintained by SHCPF show that the program's success rate in reducing crime incidents in participating facilities has reached or exceeded 90 percent nationally since its inception, currently hovering at 92 percent. The types of crimes covered include fraud, abuse, neglect, theft and damage to property on the campus of the sponsored facility. The Foundation maintains crime incident records on every facility in the program and provides quarterly reports to sponsoring institutions.

## *CRA Plays an Important Part in SHCPF's Success*

SHCPF was established as a conduit for financial institutions to make community development loans and investments that would qualify for favorable Community Reinvestment Act (CRA) consideration. The federal banking agencies recognize that the Senior Crimestoppers Program satisfies CRA eligibility criteria. SHCPF ensures that the resident population in each of the bank-sponsored facilities meets low- and moderate-income (LMI) requirements for CRA purposes.

OTS-supervised institutions have provided financial support to the Foundation in the past, and other thrifts may benefit by exploring different ways to structure their participation in SHCPF activities (see Doing Well by Doing Good, page 13) ■



## Doing Well by Doing Good: How Banks Can Provide CRA-Eligible Loans, Investments and Services to the Senior Housing Crime Prevention Foundation

# Compliance Roundtable

*Below is a summary of major compliance policy guidance — and an advanced notice of proposed rulemaking by OTS — published since May 31, 2007.*

## Proposed Guidance: Mortgage Lending

Refer to: http://www.ots.treas.gov/ and click on "laws and regulations" for the following issuance.

■ **Illustrations of Consumer Information to Support the Interagency Subprime Statement**

**Issued August 14, 2007**

The federal banking agencies and the NCUA issued proposed illustrations of consumer information for certain adjustable-rate mortgage (ARM) products, described in the Subprime Statement issued July 10, 2007. The illustrations are intended to assist institutions in providing clear, balanced, and timely information to consumers about the relative benefits and risks of certain ARM products.

The proposed illustrations consist of an explanation of some key features and risks that the Subprime Statement identifies, including payment shock, and a chart that shows the potential consequences of payment shock in a readily understandable manner.

The comment period closed October 15, 2007. The final guidance has not been published.

Refer to http://www.ots.treas.gov/docs/7/73373.pdf for the following issuance.

■ **Advanced Notice of Proposed Rulemaking — Unfair or Deceptive Acts or Practices**

**Issued August 6, 2007**

The OTS issued an Advance Notice of Proposed Rulemaking (ANPR) relating to unfair or deceptive acts or practices (UDAP), which seeks public comment on approaches that OTS should consider in determining whether, and to what extent, additional regulation is needed to ensure customers of OTS-regulated entities are treated fairly.

The ANPR solicits comment on the scope of entities, practices, products and/or customer relationships that a revised UDAP regulation should cover. It further seeks comments on whether there is a need for the OTS to expand its regulation in this area, and whether other approaches, including guidance, may be appropriate.

The ANPR affirms the importance of consistency in rules and guidance by the federal banking agencies, including consistent interagency standards relating to unfair or deceptive acts or practices. The OTS will pursue consistency with the other regulators in this area.

The comment period closed November 5, 2007.

## Proposed Guidance: Community Reinvestment Act

Refer to http://www.ots.treas.gov/docs/7/777047.html for the following issuance.

■ **Revisions to Interagency Questions and Answers Regarding Community Reinvestment**

**Issued July 11, 2007**

The agencies are proposing new questions and answers as well as substantive and technical revisions to the existing policy guidance. Some of the proposed revisions are intended to encourage institutions to work with homeowners who are unable to make mortgage payments by highlighting that they can receive CRA consideration for foreclosure prevention programs for low- and moderate-income homeowners, consistent with the April 2007 interagency Statement on Working with Mortgage Borrowers.

In addition, the revisions would clarify that institutions of all sizes should receive favorable consideration for providing credit in a manner that is responsive to the needs of their communities. Such activities include, for example, offering affordable small loan programs and programs that transition low-and moderate-income homeowners from higher-cost loans to lower-cost loans.

The comment period closed September 10, 2007.

## Final Guidance: Mortgage Lending

Refer to
http://www.ots.treas.gov/resultsort.cfm?catNumber=44&dl=1&edit=1 for each of the following issuances.

■ **Consumer Illustrations for Nontraditional Mortgage Products**

**Issued May 31, 2007**

The consumer illustrations are intended to assist financial institutions in implementing the consumer protection portion of the Interagency Guidance on Nontraditional Mortgage Product Risks (the Interagency NTM Guidance), adopted on October 4, 2006. The federal banking agencies and the National Credit Union Administration (NCUA) collectively issued the guidance.

The Interagency NTM Guidance recommends that promotional materials and other product descriptions provide consumers with information about the costs, terms, features, and risks of nontraditional mortgage products that can assist consumers in their product selection decisions. This includes information about potential payment shock and negative amortization and, where applicable, information about prepayment penalties and the costs of reduced documentation loans. Institutions may elect to use the illustrations, or provide information based on the information, including using an alternate format.

■ **Statement on Subprime Mortgage Lending**

**Issued July 10, 2007**

The guidance clarifies how institutions can offer certain adjustable-rate mortgage (ARM) products in a safe and sound manner, and in a way that clearly discloses the risks that borrowers may assume. The federal banking agencies and the NCUA collectively developed the Statement on Subprime Mortgage Lending (the Subprime Statement) to address emerging issues and questions relative to certain subprime mortgage lending practices. The agencies are concerned that borrowers may not fully understand the risks and consequences of obtaining products that can cause payment shock.

The Subprime Statement incorporates a section on workout arrangements that references the principles of the April 2007 Interagency Statement on Working with Borrowers. Prudent workout arrangements that are consistent with safe and sound lending practices are generally in the long-term best interest of both the financial institution and the borrower.

[Note: The Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators have developed a parallel statement for state supervisors to use with state-supervised entities.]

Refer to http://www.ots.treas.gov/docs/7/777062.html for the following issuance.

■ **Statement on Loss Mitigation Strategies for Servicers of Residential Mortgages**

**Issued September 4, 2007**

The federal banking agencies, the NCUA, and the Conference of State Bank Supervisors released a statement encouraging federally regulated institutions and state-supervised entities that service securitized residential mortgages to determine their authority under pooling and servicing agreements to identify borrowers at risk of default and pursue appropriate loss mitigation strategies designed to preserve homeownership. Loss mitigation strategies include loan modifications, conversion of adjustable-rate mortgages to fixed-rate mortgages, deferral of payments, or extending amortization periods. Institutions should also consider referrals of borrowers, as appropriate, to qualified homeownership counseling services that may assist the parties in avoiding foreclosure ■

# Resource Directory

The following summary provides additional information for the articles in this newsletter. Please note that the OTS makes no representations as to the accuracy of the information contained on these sites.

### Finding Solutions: Responding to Foreclosure

**http://www.fha.gov/about/fhascusqa.cfm**

This Web page contains Frequently Asked Questions (FAQs) about FHASecure.

Borrowers may search online for an FHA-approved lender, or call 1-800-225-5342 (1-800-CALLFHA).

**http://www.fha.gov/foreclosure/index.cfm**

This FHA site provides detailed information to homeowners experiencing financial trouble, which includes how to contact lenders to discuss workout arrangements, how to obtain housing counseling services, and ways to avoid predatory lending schemes and other scams.

**http://www.hopenow.com**

This Web site for the newly created HOPE NOW alliance assists financially distressed homeowners in contacting their mortgage lender and finding housing counseling providers.

**http://nw.org/network/neighborworksprogs/foreclosuresolutions/default.asp**

The NeighborWorks® Center for Foreclosure Solutions, an initiative of NeighborWorks® America, was created to preserve homeownership in the face of rising foreclosure rates. In conjunction with national nonprofit, mortgage and insurance partners, the Center builds capacity among foreclosure counselors around the nation, conducts public outreach campaigns to reach struggling homeowners, and researches local and national trends to develop strategic solutions. In cities and states with high rates of foreclosure, the Center works with local leaders to create sustainable foreclosure intervention programs.

The toll-free hotline number is 1-888-995-HOPE (1-888-995-4667).

### Related Web information for the foreclosure avoidance initiative

**http://www.foreclosurehelpandhope.org**

**http://www.995hope.org/**

**http://www.nw.org/nfmc**

This Web site contains detailed information about the National Foreclosure Mitigation Counseling Program, administered by NeighborWorks® America.

### Reverse Mortgages

**http://www.hud.gov/offices/hsg/sfh/hecm/hecmhome.cfm**

This is the HUD home page for FHA-insured Home Equity Conversion Mortgages. The site contains links to locate FHA-approved HECM lenders and identify FHA-approved HECM counselors, including participants in the National HECM counseling network.

**http://www.fha.gov/reverse/index.com**

The site provides information on finding FHA-approved lenders that offer HECMs, calculating closing costs, and obtaining various resources to aid homeowners in the use of the HECM program.

**http://www.hecmresources.org/network.cfm**

This site provides additional information on HECM counseling services.

To find a HUD-approved housing counseling agency, borrowers may call 1-800-569-4287 or visit **http://www.hud.gov/offices/hsg/sfh/hcc/hccprof14.cfm.**

**http://www.fanniemae.com/homebuyers/pdf/findamortgage/mortgages/Homekeeper_Fact_Sheet.pdf**

The site provides a consumer Fact Sheet (August 2004) with basic questions and answers about Fannie Mae's Home Keeper Mortgage® program. Interested consumers may also call 1-800-7Fannie (1-800-732-6643) for more information and a list of participating lenders.

**http://www.aarp.org/money/revmort/**

This site contains reverse mortgage information maintained by the American Association of Retired Persons (AARP), including basic features of, borrower eligibility, payment options, and related issues.

### Crime Prevention and the Elderly

Senior Housing Crime Prevention Foundation

**http://www.shcpfoundation.org/**

Senior Crimestoppers Program

**http://www.seniorcrimestoppers.org**

**Editors Note:** Our thanks to the many contributing writers throughout OTS who continue to make this a viable and informative publication. Editions of the *Community Liaison* newsletter are available online at www.ots.treas.gov

**EMBARGOED UNTIL DELIVERY**

**STATEMENT OF**

**ROBERT W. MOONEY**
**DEPUTY DIRECTOR**
**DIVISION OF SUPERVISION AND CONSUMER PROTECTION**
**FEDERAL DEPOSIT INSURANCE CORPORATION**

**on**

**FINANCIAL LITERACY AND EDUCATION: THE EFFECTIVENESS OF GOVERNMENTAL AND PRIVATE SECTOR INITIATIVES**

**before the**

**COMMITTEE ON FINANCIAL SERVICES**
**U.S. HOUSE OF REPRESENTATIVES**

**April 15, 2008**
**2128 Rayburn House Office Building**

Chairman Frank, Ranking Member Bachus, and members of the Committee, I appreciate the opportunity to testify on behalf of the Federal Deposit Insurance Corporation (FDIC) regarding financial education.

In my testimony, I will discuss the importance of financial literacy. I also will touch on a number of specific programs undertaken by the FDIC aimed at improving financial literacy and enabling individuals and families to build wealth. In particular, I will describe the FDIC's *Money Smart* program and the results of a survey of the program's effectiveness completed last year. In addition, my testimony will discuss the importance of integrating financial education into school curricula and FDIC activities in this area. Finally, my testimony will briefly touch on FDIC efforts to increase access to financial services that provide alternatives to predatory lending for consumers.

**The Importance of Financial Literacy**

The extraordinary transformation of financial markets over the past decade has placed a new premium on financial literacy, making it nothing less than an essential survival tool. While consumer credit is more available than ever, technological advances and an array of new consumer products, services and providers have made modern banking much more complicated. In today's marketplace, it is more important than ever for consumers to be educated about their rights and options regarding financial offerings.

Notably, U.S. demographics have shifted to open up new pools of potential financial customers, while markets themselves have changed to increase credit availability. The relative inexperience of some new borrowers, along with the escalating complexity of financial products, for example, in the credit card market, and an array of providers, makes it difficult for consumers as a group to consistently exercise informed financial judgment. A lack of financial knowledge can contribute to poor decisions that harm individuals, families, and ultimately, entire communities.

The current problems in the mortgage market make clear some of the consequences that unwise financial decisions can bring. The rapid proliferation of subprime, hybrid adjustable rate mortgages (ARMs) versus other options suggests that many borrowers either did not understand or were not told about other, less volatile, products. While financial literacy is not a panacea and does not excuse irresponsible lending, a more informed consumer population might have recognized the problems with these products and demanded appropriate fixed rate products -- limiting the issues we confront today in the subprime mortgage market.

The FDIC has called for national standards to address many of the problems and abuses that are now coming to light in the subprime mortgage market. These standards should impose underwriting based on the borrower's ability to repay the true cost of the loan, especially among the non-bank lenders currently operating with little or no regulatory oversight. Such standards also should address misleading or confusing marketing that prevents borrowers from properly evaluating loan products. However, even with new national standards, there is only so much regulators and the legal system can do. A comprehensive solution requires that consumers be

equipped with sufficient financial educational tools to protect themselves against inappropriate or, in some cases, predatory products.

Inadequate financial knowledge is not only a problem for mortgage borrowers but is pervasive throughout many segments of society. The April 2007 National Foundation for Credit Counseling (NFCC)[1] consumer financial literacy survey found that many American consumers do not follow basic sound financial management practices. In particular, of those surveyed:

- Only 39 percent track expenses;
- Less than half have ordered their credit report;
- 38 percent do not pay credit card bills in full each month; and,
- One-third do not know where to go for financial advice.

Low- and moderate-income families who lack financial education skills are exposed to magnified financial hardships when they are forced to manage financial shocks from unexpected healthcare emergencies, death, divorce, or household job loss. Because of these and other factors, income volatility has grown significantly for lower income households in recent decades. Households in the lowest fifth of the income distribution can now see their incomes fluctuate by as much as 50 percent from year to year.[2] To the extent that low- and moderate-income households lack basic financial skills, they may be especially ill-prepared to cope with such dramatic changes in their economic conditions.

[1] "A Teachable Moment and a New Mission," The National Foundation for Credit Counseling, April 23, 2007.
[2] *See* Suzanne Nora Johnson, Lisa Mensah and C. Eugene Steuerle, "Savings in America: Building Opportunities for All," Global Spring 2006.

Other groups that may benefit from financial education programs are students and young adults. According to a 2008 survey by the Jump$tart Coalition for Personal Financial Literacy, financial literacy scores among high school and college students are quite low. The survey found that high school seniors answered correctly, on average, only 48 percent of the questions on the Coalition's personal finance examination.[3] College students fared better, but still answered correctly only 62 percent of the time.[4] Students are graduating to young adulthood with high debt loads and poor financial management habits. The Project on Student Debt found that the college class of 2006 had an average debt close to $20,000.[5] More than half of college students accumulated more than $5,000 in credit card debt while in college, and one-third accumulated more than $10,000.[6]

***Money Smart***

*Money Smart* is a financial training program that was developed by the FDIC in 2001 to help low- and moderate-income adults enhance their money management skills, understand basic mainstream financial services, avoid pitfalls and build financial confidence to use banking services effectively. Last year, the FDIC issued an updated version with a module specifically designed to help consumers evaluate and compare mortgage products, in particular those that can create problems for subprime borrowers. This free curriculum is available in English, Spanish, Chinese, Korean, Vietnamese and Russian, as well as a version for the visually impaired, and is

[3] Jump$tart Coalition for Personal Financial Literacy, 2008 Survey of Personal Financial Literacy Among High School Students.
[4] Jump$tart Coalition for Personal Financial Literacy, 2008 Survey of Personal Financial Literacy Among College Students.
[5] The Project on Student Debt, "Student Debt and the Class of 2006," September 2007.
[6] "Sallie Mae launches new 'Be Debt Smart' campaign to educate students, parents and graduates on managing debt and understanding credit," Sallie Mae news release, February 14, 2007, http://www.salliemae.com/about/news_info/newsreleases/021407_bedebtsmart.htm.

available both as an instructor-led or a computer-based training program. Just yesterday, Chairman Bair announced that the FDIC recently surpassed the goal established at the inception of the *Money Smart* program to reach 1 million consumers. We expect to reach many more consumers as we continue to enter into new partnerships, expand upon our established relationships and move forward with several new initiatives.

To reach as broad an audience as possible, the FDIC continues to partner, as we have since the start of the program, with scores of federal, state and local agencies, national nonprofit organizations, financial institutions, bank trade associations and community- and consumer-based organizations. The FDIC also continues to encourage financial institutions to develop partnerships with community-based organizations and other local entities, such as housing authorities, to offer *Money Smart* classes. Research suggests that established community organizations that understand local community needs are in a strong position to deliver effective training even where there may be a cultural distrust of financial institutions.[7]

**Quantifying the Benefits of *Money Smart***

Measurement is an important aspect of determining the success of financial literacy programs and their efficacy in improving consumers' ability to make informed financial decisions. A growing body of research demonstrates that there is a causal connection between

[7] *See, e.g.,* Jacob, K., Hudson, S., and Bush, M. "Tools for Survival: An Analysis of Financial Literacy Programs for Lower-Income Families, Woodstock Institute;" Toussaint-Comeau, M., and Rhine, S. L. W., "Delivery of Financial Literacy Programs," Federal Reserve Bank of Chicago Policy Studies.

increases in financial knowledge and positive changes in financial behaviors.[8] Financial education has been shown to improve savings, homeownership, retirement planning, and credit use.[9] However, many financial literacy programs are still relatively new, and the body of evaluative research on financial literacy's effectiveness is still being developed.[10] Most research in this area does not yet fully measure the long-term impact on adult behaviors.

To address this gap in the research, last year the FDIC completed a major multi-year study designed to measure the effectiveness of financial literacy training, specifically training using the *Money Smart* curriculum. The goal was to measure, over time, not only whether the trainees' knowledge of financial matters improved and whether they *intended* to change their financial behaviors, but also whether, months after the training, they had actually improved financial behaviors. The study was conducted to determine the effect of financial education on participant behavior regarding basic banking, saving, budgeting, and credit.

This study, which was conducted in cooperation with NeighborWorks America, consisted of a three-part survey of participants in *Money Smart* courses across the country. The FDIC engaged The Gallup Organization to assist with the development of the survey questions and to administer the survey. The assessment used: a pre-training survey to gather baseline data on students' knowledge, behaviors and confidence; a post-training survey to gather data on changes in participants' knowledge, behaviors, confidence and their future intentions; and a telephone follow-up survey six to twelve months after the training to identify changes in those factors.

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[8] *See, e.g.,* Matthew Martin, "A Literature Review on the Effectiveness of Financial Education," Federal Reserve Bank of Richmond Working Paper No. 07-03, June 15, 2007.
[9] *See, e.g.,* Matthew Martin, "A Literature Review on the Effectiveness of Financial Education," Federal Reserve Bank of Richmond Working Paper No. 07-03, June 15, 2007.
[10] *Id.*

The findings, based on 631 respondents, suggest that the *Money Smart* financial education training -- covering the basics of checking, saving, budgeting, and credit -- can positively change consumer behavior and improve financial confidence. The six to twelve month follow-up survey determined that, after taking the *Money Smart* training, participants were more likely to open deposit accounts, save money in a mainstream deposit product, use and adhere to a budget, and have increased confidence in their financial abilities. Survey findings indicated that immediately after completing the course:

- 69 percent of respondents reported an increase in their level of savings,
- 53 percent reported their debt decreased, and
- 58 percent stated they were more likely to comparison shop.

The follow-up survey revealed that:

- 13 percent of participants who already had a checking account after the training opened a different type of account at the same institution and 22 percent opened a checking account at a different financial institution by the time of the follow-up survey, thereby evidencing the participants' ability to comparison shop;
- 43 percent of those without a checking account opened a checking account after completing the course;
- 37 percent of those without a savings account opened a savings account after completing the course;
- 28 percent of those with checking accounts and 22 percent of those with savings accounts began using direct deposit for the first time at the end of the course;
- 61 percent of those not using a spending plan/budget at the end of the course used one by the time of the follow-up survey;
- 95 percent of those who used a spending plan/budget at the end of the course still used it at the time of the follow-up survey; and

- There was a 12 percentage point increase in those who "always" pay bills on time between the beginning of the course and the time of the follow-up survey.

The findings of the survey demonstrate that financial education programs can have a positive impact and, hopefully, will act as an incentive for more banks to offer financial education programs as a means to open accounts and build long term customer relationships. While the FDIC is proud of the improvements in financial literacy indicated by the *Money Smart* survey, there is still much work to be done in this area.

**Expanding Financial Education in Schools**

*Money Smart for Young Adults*

As I noted earlier, *Money Smart* was developed initially to reach low- and moderate-income adults, for whom there appeared to be a dearth of financial education curricula. However, the curriculum is sometimes used to teach younger persons. Yesterday, Chairman Bair announced the release of our new *Money Smart for Young Adults*, tailored to secondary and college level students (ages 12 to 20). It is aligned with educational standards for all 50 states and the District of Columbia, as well as Jump$tart's national financial literacy standards and the National Council on Economics Education's national economics standards.

*Money Smart for Young Adults* has an added visual appeal geared toward youth, and uses activities and examples that are age-appropriate and relevant. Characters are used in situational comic strips in each module to show students a real-world application of the content. The

curriculum combines activities, lessons, and practical scenarios to help teens better comprehend bank accounts, credit and debit cards, and money management. The materials give students a basic understanding of common financial situations, as well as the confidence and know-how to make smart decisions with their money.

This builds on the work the FDIC has already done to integrate *Money Smart* into public schools. For example, in 2007, the FDIC contacted more than 300 schools, school systems, and government entities to recommend the use of the *Money Smart* curriculum, which has been unanimously endorsed by the Board of Directors of the National School Boards Association for use in public schools. At the same time, we are distributing -- through schools, churches, and other venues -- copies of a special edition of the FDIC's consumer newsletter for teenagers, and another newsletter for young adults becoming financially independent.

A number of states have already integrated *Money Smart* into their educational programs. Allegany County, Maryland high schools use *Money Smart* in business education and family and consumer science classes. In Virginia, many schools are utilizing *Money Smart* in middle and high schools to comply with state legislation mandating economic and personal financial education instruction performance standards. Some jurisdictions, such as Blairsville, Georgia and Long Island, New York, require completion of a financial education program as a condition for graduation and *Money Smart* has been approved for this purpose. In Hawaii, the Department of Education's Adult Education Program incorporated two *Money Smart* modules into their computer-based High School Diploma Program.

In addition, many states, such as Massachusetts, have developed school-based banking programs. Building on these programs, the FDIC is developing school-based initiatives in several cities with the FDIC's Alliance for Economic Inclusion (AEI), which I discuss in detail later in my testimony. The FDIC is providing technical assistance to help financial institutions and others interested in establishing school-based banking programs in high schools. These programs have a number of outcomes including integrating financial education into core classes and/or career pathways; job-training and resume building for students; and expanded access to mainstream financial services for students, faculty, and their families.

**Other Financial Education Activities**

The FDIC partnered with NeighborWorks America to produce and deliver a financial education and housing recovery curriculum for those affected by the 2005 Gulf Coast Hurricanes. This curriculum provides practical information for families faced with financial decisions related to building, rehabilitating, selling or buying a home after the hurricanes.

Additionally, over the past five years, the FDIC has conducted a number of financial education outreach and training events on military bases around the country to teach the fundamentals of money management, ways to avoid the pitfalls of high cost loans and strategies for steering clear of predatory lending. Beginning in late 2006, the FDIC expanded these efforts by providing financial education to military personnel and families in partnership with the Department of Defense's Financial Management Programs, the Association of Military Banks (AMBA), the Corporation for Public Broadcasting, New River Media, and local PBS stations.

**The Financial Literacy and Education Commission**

In addition to the work we have done through our own programs, the FDIC is a member of the Financial Literacy and Education Commission (FLEC) which has helped focus attention on the importance of financial literacy.

At the request of the Treasury Department, the FDIC and several other members of the FLEC, cosponsored a series of conferences to share best practices on bringing unbanked people into the financial mainstream. The conferences brought together community-based organizations, financial service providers, and federal, state, and local regulators to broker partnerships and discuss the latest developments and strategies. Some of these conferences were focused on minority communities, such as Native American, Asian American and Pacific Islander, and African American communities. The FDIC also has provided substantial support to the FLEC operations and activities.

**Activities Beyond Financial Literacy**

Offering a financial education program provides few benefits if consumers only have access to high cost financial products. For this reason, the FDIC is actively involved with integrating financial education into broader initiatives designed to promote asset-building and access to mainstream financial services. Along with financial institutions and other partners, the FDIC is working to bring currently unbanked and underserved populations into the financial mainstream through innovative low-cost products and services, and expanded financial education

efforts. These include savings accounts, affordable remittance products, small dollar loan programs, targeted financial education programs, alternative delivery channels, and other asset-building programs. To assist in this effort, Chairman Bair established the FDIC Advisory Committee on Economic Inclusion in 2007 to provide the FDIC with advice and recommendations on important initiatives focused on expanding access to banking services by underserved populations.

*Affordable Small Dollar Loans*

High cost loan products can push consumers deeper into debt. Many people who use high cost products, such as payday loans, already have checking accounts. However, their financial institutions do not offer small-dollar, short-term credit products that meet their needs. The FDIC is encouraging institutions to use the Affordable Small Dollar Loan guidelines, issued last year by the FDIC, to develop low-cost, small dollar loans coupled with savings vehicles.

The FDIC also has started to explore incentives for banks that offer wealth-building products targeted to the underserved. FDIC-supervised banks that offer low-cost alternatives to payday loans in a manner consistent with our guidelines, including a savings component, will receive favorable consideration under the Community Reinvestment Act as an activity responsive to the credit needs of the community.

The FDIC recently began a two-year pilot project to review affordable and responsible small-dollar loan programs in financial institutions. Through this study, we hope to identify

effective and replicable business models to help other banks incorporate affordable small-dollar loans into their other mainstream banking services. An initial group of 31 banks was selected to participate in the study, and the FDIC will begin collecting quarterly data about each institution's experiences in May 2008.

*Alliance for Economic Inclusion*

Over the years, the FDIC has paired its promotion of financial education with programs designed to promote inclusion in the banking system. With the assistance from the Advisory Committee, the FDIC has recently undertaken two major initiatives in this area – the Alliance for Economic Inclusion and two surveys intended to provide extensive data regarding economic inclusion.

The AEI is a national network currently working in several communities across the country to bring more of the unbanked and underserved into the financial mainstream. These communities include the Greater Boston area; Wilmington, DE; Baltimore, MD; South Texas (Houston/Austin); Chicago; the Louisiana and Mississippi Gulf Coast; central Alabama; Kansas City; Los Angeles; and – as of next month – Rochester, NY. These diverse markets include low- and moderate-income neighborhoods, urban neighborhoods, minority communities, and rural areas.

AEI membership is comprised of financial institutions, community-based organizations and other partners that share the FDIC's commitment to bring unbanked and underserved

consumers into the financial mainstream. AEI members focus their efforts on expanding access to basic retail financial services, including savings accounts, affordable remittance products, small-dollar loan programs, targeted financial education programs, alternative delivery channels and other asset-building programs.

More than 700 banks and other organizations have joined the AEI. Under the auspices of the AEI, approximately 28,000 bank accounts have been opened; 29,000 consumers have received financial education; 41 banks are developing small dollar loan programs; and 21 banks now offer remittance products allowing customers to send money to friends or family members outside the U.S.

*Foreclosure Prevention*

An AEI partnership with NeighborWorks America to promote foreclosure prevention and education was announced in July 2007. Since then, both NeighborWorks America and the FDIC have conducted more than 28 local outreach and training events. These events are designed to assist NeighborWorks Centers for Foreclosure Solutions and other local organizations in developing and implementing strategies to educate at-risk homeowners about the availability of foreclosure prevention counseling services and other resources.

Each of the AEI coalitions is also coordinating foreclosure prevention efforts to provide support and expand local foreclosure prevention programs already underway within their communities. These efforts are being expanded this year, through a series of foreclosure

symposia to be held by the FDIC and NeighborWorks America in cities with high concentrations of foreclosures. The symposia will be targeted to bankers and community organizations that can help support counseling, mitigation and outreach efforts to distressed homeowners facing mortgage delinquency and foreclosure. The first symposium is scheduled to be held next month.

*The Economic Inclusion Surveys*

In keeping with the requirements in the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, the FDIC has initiated biennial surveys of FDIC-insured institutions regarding their efforts to serve the unbanked. We anticipate that the surveys will help us better understand the unbanked population and banks' roles in serving them

The first of these surveys, the *National Survey of Banks' Efforts to Serve the Unbanked and Underbanked*, is expected to yield significant insights. We believe the information gathered in the survey will be useful in helping banks improve their abilities to meet the diverse financial needs of U.S. households. The survey focuses on banks' financial education and outreach strategies, and deposit, payment, and credit products offered to underserved consumers. The results of this survey, the first in a series of biennial surveys, will be reported to Congress later this year.

The FDIC also is exploring the feasibility of conducting a survey with the U.S. Census Bureau to estimate the percentage of the U.S. population that is unbanked and underbanked. This would be the first national household survey to collect data on the numbers and

demographic characteristics of these targeted households, as well as the barriers they perceive when deciding how and where to conduct financial transactions.

*Promoting Savings*

The FDIC is a partner in *America Saves*, a national social marketing campaign, organized around local, statewide, and affinity group campaigns, which promotes asset-building among individuals, particularly in low- and moderate-income households. To date, *America Saves* has enlisted more than 90,000 individuals. The FDIC participates in partnerships with local *America Saves* coalitions, promoting financial education through the *Money Smart* program, and providing technical assistance on Individual Development Account (IDA) programs to financial institutions and non-profit/municipal organizations.

**Conclusion**

Not only is financial literacy essential to evaluate the multitude of choices available to consumers, but this knowledge serves to protect informed consumers from bad products and scams. A consumer who knows the right questions to ask, understands economic fundamentals and has the confidence to challenge products and practices that seem "too good to be true" is a regulator's best weapon in consumer protection.

Our 2007 survey results demonstrate that programs like *Money Smart* can be effective in changing and improving the financial lives of consumers. While the survey results are very

positive, many populations still need improved education and services to enter the financial mainstream. We look forward to continuing to work toward that goal.

This concludes my testimony. I would be happy to answer any questions.

National
Urban League

*Empowering Communities.*
*Changing Lives.*

TESTIMONY OF

**MARC H. MORIAL**

PRESIDENT AND CEO
NATIONAL URBAN LEAGUE

Before the

HOUSE FINANCIAL SERVICES COMMITTEE

Hearing on

"Financial Literacy and Education: The Effectiveness of Government and Private Sector Initiatives"

April 15, 2008

Testimony of

Marc H. Morial
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Financial Literacy and Education: The Effectiveness of
Government and Private Sector Initiatives

April 15, 2008

Chairman Frank and Ranking Member Bachus, I am Marc Morial, President and CEO of the National Urban League. I thank the committee for the invitation to testify on the very important issue of financial literacy and education. Our views and key findings are based on decades of program delivery experience.

Established in 1910, the National Urban League is the nation's oldest and largest civil rights and direct services organization serving 2 million people each year in over 100 urban communities. Economic Empowerment – assisting clients to attain economic self-sufficiency through job training, good jobs, homeownership, entrepreneurship and wealth accumulation – leads the five-pronged strategy to advance the mission of the Urban League Movement and is imperative to an improved "State of Black America." Today's hearing examining the need for financial literacy and the status of current governmental and private sector financial literacy initiatives falls squarely within the economic empowerment discussion.

At the outset, it is important to note that this country's increasingly complex financial services market offers consumers a vast array of products, services, and providers to choose from to meet their financial needs. While this degree of choice provides consumers with a great number of options, it also requires that they be equipped with the information, knowledge, and skills to evaluate their options and identify those that best suit their needs and circumstances. This is especially the case for populations that have traditionally been underserved by our financial system, such as African Americans, which comprise the core constituency of the National Urban League.

From the National Urban League's perspective, one fundamental problem with improving financial literacy is defining the term itself. A formal definition of personal *financial literacy* is the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well-being. The Urban League Movement employs a more expansive approach to this work which includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy.

Financial literacy is at the core of the Urban League's mission to empower African Americans to attain economic self-sufficiency. The rationale for our emphasis on financial literacy is buttressed by some startling data, as revealed in our annual *State of Black America* report and the accompanying *Equality Index*, a statistical measurement of African Americans' progress toward closing the equality gap in wealth, health, education, social justice and civic engagement.

- African Americans' economic standing is 57% that of mainstream America (*2008 Equality Index*)
- Blacks hold nearly five times more installment debt than whites, and more than three times more debt than whites overall (*2008 State of Black America*)
- The median net worth of African Americans is $11,800, versus $118, 300 for whites (*2008 Equality Index*)

These astonishing statistics highlight the urgency of improving financial education in urban communities. The Urban League strategy is to create culturally competent programs that address both financial principles and long-term behavioral change. The National Urban League operates financial literacy programs in more than 75 Urban League Affiliates throughout the country. Through workshops, one-on-one counseling, and easily accessible learning materials, individuals develop effective money management strategies and, ultimately, build lasting wealth for themselves, their families, and their communities. The Urban League's financial literacy programs provide the education, tools and encouragement for individuals at all income levels to shape their own financial destinies.

Through our program experience we find that the pressing need for improved financial literacy comes from three emerging national trends. First is the deterioration of personal finances. Second is the proliferation of new, and often complex, financial products that demand more financial expertise of consumers. Third is the replacement of defined benefit pension plans with defined contribution plans that shift responsibility to consumers to fund their own retirement. Turbulent market conditions, changing tax laws, and homeland insecurity compound the need for sound financial literacy.

As a nation, we have only recently recognized our financial literacy education shortcomings. In response, many groups such as the National Urban League have taken action, developed initiatives and programs, and offered their services to various segments of society. A collection of anecdotal and quantitative data from our affiliate financial literacy programs identifies four themes characteristic of the African American community which are almost certainly universal in their applicability:

- Many people are failing to plan ahead
- Many people are taking on financial risks without realizing it
- Problems of debt are severe for a significant proportion of the population, and many more people may be affected in an economic downturn
- The under-40s are, on average, less financially capable than their elders

The National Urban League has traditionally worked in tandem with banks and foundations to design, implement, and evaluate various financial literacy curricula. Currently, we administer five such partnerships – each targeting a specific socio-demographic cohort from youth and young professionals to prospective home purchasers and established business owners and investors. In aggregate, these programs provide basic, intermediate and advanced financial counseling and education to more than 25,000 clients per year. Overall evaluation research of our financial literacy programs consistently finds significant correlations between the level of financial knowledge and good financial management practices. Individuals who are familiar with financial concepts and products are found to be more likely to balance their checkbook every month, budget for savings, and hold investment accounts. Similarly, we find that client creditworthiness and consumer

literacy determine that financial knowledge is the single best predictor of behavior, such as budgeting, saving, and shopping responsibly, that translate into positive outcomes on credit bureau reports.

However, the *National Strategy for Financial Literacy* developed by the Financial Literacy and Education Commission has helped to crystallize our understanding and recognition that limited access to the financial mainstream and poor financial literacy skills are major barriers to asset development. Poor financial literacy has a detrimental impact on personal financial management – affecting the consumer's ability to own a home, find employment, buy a car to get to work, purchase life insurance, rent an apartment, or pay tuition. Consumers without a relationship with a mainstream financial institution also pay high transaction fees at check cashers. According to a recent Woodstock Institute study, check cashers charge up to three times as much as financial institutions for basic financial services but do not provide key services like savings accounts and financial advice. In addition, some check cashers offer predatory services with exorbitant fees, including payday loans.

Financial literacy barriers related to institutional distrust can be addressed through effective financial literacy training. Banks as well as the public sector must work in partnership with community and other nonprofit organizations such as the Urban League to provide financial literacy workshops and counseling to overcome issues of trust which are undoubtedly the residue of generations of discrimination in American society.

Basic financial literacy – such as owning a bank account, managing household finances, and being able to save for the future – is critical to success in the modern American economy. Working families need bank accounts in order to conduct the transactions of daily life, but more than 10 million U.S. households lack this basic financial tool. Account ownership is also critical to saving for short-term emergencies, and for establishing credit history to access consumer, home mortgage, and business credit. A bank account can help low-income families plan better financially and save for the future. Lack of a bank account can be quite costly to low-income families as they cash their checks and conduct transactions at alternative providers. Use of these costly alternatives impedes government initiatives to move families from welfare to work and to reward work with the Earned Income Tax Credit, which the National Urban League strongly supports. In addition, low-income and minority families need better mechanisms to foster savings for important life events, including buying a home, sending their children to college, or retirement. Yet, few low-income workers have access to tax-preferred savings plans, such as Individual Retirement Accounts, that millions of middle- and upper-income families use today. New incentives are needed to transform the basic financial services landscape for the poor. The National Urban League's Homebuyer's Bill of Rights, for example, champions the right to save for homeownership tax free. It recommends creation of Individual Development Accounts for Homeownership as matched savings plans for the future purchase of a home.

In conjunction with financial literacy education, housing counseling also plays a key role in support of the goal to increase financial awareness and sophistication and to close the wealth gap between minority and non-minority households. Based on our experience in recent years, we project that more than 30 of our Urban League affiliates will help about

5,000 families become homeowners this year. Moreover, an additional 10,000 families will continue to work with their counselors to become mortgage-ready during the following year. These 15,000 families represent approximately 1/3 of the clients who will receive one-on-one counseling from Urban League Affiliates supported by HUD grant funds secured under the National Urban League's National Intermediary designation. Of the remaining families who receive homebuyer counseling, a portion will determine that they are simply not in a position to become homeowners – a key, yet basic, indicator of financial awareness and aptitude. We believe that this decision is equally as important as the decision to buy a home. These educated consumers are making a wise decision about their financial capacity to sustain homeownership. In so doing, these families are avoiding subprime, or even predatory, loan products and are putting themselves in a better position to achieve homeownership in the future.

The National Urban League's Housing Counseling Program, through 30 of our affiliates, supports the delivery of a wide variety of housing counseling services to homebuyers, homeowners, low- to moderate-income renters, and the homeless. The primary objectives of the program are to expand homeownership opportunities and improve access to affordable housing. Counselors at our affiliates provide guidance and advice to help families and individuals improve their housing conditions and meet the responsibilities of tenancy and homeownership. Counselors also help borrowers avoid predatory lending practices, such as inflated appraisals, unreasonably high interest rates, unaffordable repayment terms, and other conditions that can result in a loss of equity, increased debt, default, and foreclosure.

In addition to a deeper national commitment to housing counseling – which is also a core tenet of the Homebuyer's Bill of Rights the National Urban League advocates three key objectives that the federal government and the Financial Literacy and Education Commission should pursue to promote economic opportunity for minority and low-income families and communities:

- Expand access to capital and financial services through mainstream banks and thrifts, particularly by ensuring that CRA remains effective.
- Bank the unbanked with innovative new private sector products and services, driven by new incentives for financial services for the poor.
- Promote saving among the poor by catalyzing wide-scale establishment of Individual Development Accounts and other mechanisms that help low-income families save for homeownership and other key assets.

But what more can be done?

First, we **CAN** end predatory lending. There is no place for it in American housing or lending practices – no place at all!!! Predatory lenders have targeted homebuyers – especially African Americans – and successfully manipulated many in our community into unwarranted, illegal, or unethical loans. For low- and moderate-income African Americans, in particular, affordable loans are hard to come by which is why slick and sinister predatory lenders often appear to be the only option for many. HUD must aggressively pursue all predatory lenders, and I ask the Committee to continue to make this a top priority.

Second, as I touched on earlier we must have more housing counseling. Consumers must be educated. Our citizens need to be empowered with the tools to know when to spot a sham. The key is to be able to read and understand the fine print, and also to know when to ask for help. The U.S. Conference of Mayors, an excellent organization I once had the privilege of chairing, has reported that in many cities homeowners facing foreclosure are simply afraid to contact their lender for help. That's right – instead of picking up the phone and asking for help, people are willing lose their house. While most people facing foreclosure are afraid of their banks, the National Urban League knows that they are much more open to speaking with a local non-profit counseling agency that is reflective of their community, such as the Urban League, about their problems – I am here to announce that the Urban League is open for business in more than 100 cities across the country. Through our Affiliate network, we have provided professional, certified financial education and pre- and post purchase housing counseling services to those in need for the past forty years.

*Finally, and as the Committee well knows, we need FHA reform.*

Despite the successes of the FHA program, too many potential homeowners in underserved populations continue to be left out from the American dream of owning a home. FHA's market share has dwindled because its loan limits, inflexible downpayment requirement, and fee structure have not kept pace with the current mortgage marketplace. If FHA had been a viable mortgage alternative, many homebuyers would not have explored non-traditional mortgages, many of which are very risky.

Regrettably, this Administration seems perpetually in need of prompting to help more minorities, first-time homeowners and low-income Americans – the groups FHA and HUD were designed to serve, and to serve safely. I have long warned that gains in African American homeownership would be undone without FHA reform. Additionally, we now understand that minority homeowners who experience foreclosure usually need longer than the ten-year average to qualify for another home. Many African Americans just get one chance at homeownership. So we all need to make sure it works for them the first time.

Everyone should have access to a safe, affordable mortgage product, and this should not change just because that person is a first-time homebuyer or a minority homebuyer.

In our view, particular emphasis should be placed on reaching neighborhoods with minority populations, since a recent Federal Reserve study shows that credit scores are significantly lower in census tracts with high minority populations. HMDA data also reinforces this point. Recent surveys show that public understanding of credit scores is low, which provides a great opportunity for the Financial Literacy and Education Commission to lead industry efforts aimed at educating consumers on the role of credit scores in the approval process.

On all these key issues, be assured that the National Urban League is poised to do its part with the critical resources that Congress is making available for major non-profit partners with the experience and infrastructure required to attack this crisis head-on.

I thank you again for the opportunity to present our views, and I look forward to working with you in the days and weeks ahead to stem the tide of our nation's financial crisis – individual by individual, family by family, community by community!

# House Financial Services Committee

## Hearing on "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives"

**April 15, 2008**
10 a.m. 2128 RHOB

**Testimony by Dallas L. Salisbury**

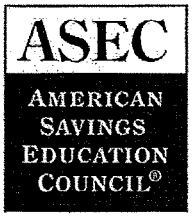
President and CEO
Employee Benefit Research Institute (EBRI

and

Chairman
American Savings Education Council (ASEC)
www.ebri.org and www.choosetosave.org

T-151




The views expressed in this statement are solely those of Dallas Salisbury and should not be attributed to the Employee Benefit Research Institute (EBRI), the EBRI Education and Research Fund, any of its programs, officers, trustees, sponsors, or other staff. The Employee Benefit Research Institute is a nonprofit, nonpartisan, education and research organization established in Washington, DC, in 1978. The American Savings Education Council, a program of EBRI-BRF, is a nonprofit national coalition of public- and private-sector organizations undertaking initiatives to raise public awareness about what is needed to ensure long-term personal financial independence. Neither EBRI nor ASEC takes policy positions, nor do they lobby or receive federal funding.

Mr. Chairman and members of the committee, I am Dallas Salisbury, president and CEO of the Employee Benefit Research Institute and chairman of its saving education program, the American Savings Education Council.

It is a pleasure to meet with you today to discuss the important topic of worker financial literacy, the role of the employer, and both public and private sector efforts and partnerships.

Several decades ago a number of corporations joined together to create the National Council on Economic Education ( www.ncee.net ) to build courses and materials to aid in student financial literacy education, based on the premise that their future employees needed financial knowledge. That group and many others which focus on our youth (such as www.jumpstartcoalition.org ) depend for their financial support on large retirement plan sponsors and service firms, as well as on financial institutions.

The U.S. Labor Department joined with EBRI (www.ebri.org ) and many other public and private organizations in 1995 to launch the American Savings Education Council (www.asec.org). This organization brings together many individuals and organizations with a dedication to encourage financial education, retirement plan sponsorship, and participant and beneficiary education for the entire population, regardless of age, employment status, etc., but with a heavy focus on plan sponsors and their workers. The Choose to Save® program (www.choosetosave.org ) of educational public service announcements, videos, Internet site, and materials was created as a direct result of the efforts of DOL, with encouragement from this Advisory Council.

The overriding purpose of the public service announcements, www.choosetosave.org , and the Ballpark E$timate® worksheets is to provide some counterbalance to the heavy public and private drumbeat to borrow and spend, to use that plastic today to enjoy life now, to be patriotic and spend for growth, now, and worry about tomorrow another day. Savings is a tough choice to make in the midst of the constant noise of instant gratification urged upon us from all directions. When Benjamin was told in the "Graduate" that the future was "plastic", who thought the true meaning was credit cards and debt"!

## Are current efforts working?

There are programs and tools available today that would provide the basis for sound individual financial decision-making. But the reality is that even when they are made available most individuals do not take advantage of them. Getting individuals to do so requires a constant drumbeat of effort. As already noted, given the constant noise to borrow and spend, current savings initiatives are actually amazingly successful, as they are "outspent" by thousands of dollars to one by those urging people to borrow and spend.

Where are we? We have sponsored the EBRI Retirement Confidence Survey® (RCS) for 18 years. We have always asked questions about what employers provide (a great deal), what employees actually use (not much), and whether use has led to self-reported changes in behavior (for a small number). Other research has taken the step of testing for results, with follow-up on whether individuals *actually* do what they *say* they will do in response to education; results have

shown that a small fraction actually implement their intentions. Much of the impetus for changes in PPA was attributed to such research.

### Why or why not?

- The tools that provide for full Monte Carlo analysis of life expectancy, inflation, wage growth, investment returns by class, and annuity optimization have only recently become available.
- Most financial planners are still using partial programs, and many still use static programs that do not even allow adjustment for long lives.
- Most individuals wait until ages at which it is often too late to make sufficient spending and saving course adjustments before they become willing to allocate time to financial planning. The RCS consistently finds that less than half report ever having made even a guess at what would be needed in retirement, and fewer than 1 in 4 reports ever having done a serious calculation. Less than half of those report taking action, and research suggests that over half of these did not actually take the action.
- Organizations and individuals are driven by the short term—whether it be profit cycles, pay periods, or credit card payment cycles, the short term dominates over intermediate- or long-term planning.
- When it comes to employee benefits, the importance of health coverage has shown up consistently in the EBRI *Value of Benefits Survey.*® More than 80 percent of workers say health insurance is their top benefits priority; over one-third say more health insurance is their second priority; one-third say a savings plan is their second priority; and less than 15 percent rank a pension plan as either first or second. Individuals focus on their current needs. The EBRI Health Confidence Survey® finds that nearly two-thirds report increases in their annual health costs, and over three-fifths of this group say they covered the increase by either reducing savings or borrowing on a credit card or against their home.
- For a substantial proportion of workers, EBRI surveys indicate that these pressures and preferences are still in place as they reach "normal" retirement ages. This underlines why they would not take advantage of financial planning programs when available.
- The fact that over a third of new retirees depend *entirely* on Social Security, and two-thirds get a *majority* of their income from Social Security, provides clear evidence of these patterns.
- The most powerful messages that individuals receive each day are to spend, and if need be, to borrow to do so. The government is about to send out "stimulus" tax checks with the request they be used for more consumption. Better that they be used to pay down debt or fund an IRA if the objective is long term financial security. The current "mortgage" crisis is a direct result of our society having been so dedicated to borrowing and spending and growth that it made it possible for people to borrow well beyond what we now know was advisable. Yet, public and private policy not only made it possible, it made it seem the "thing to do" as home ownership was touted as the "ultimate good", as opposed to, for example, savings and thrift.

Thank you for the opportunity to appear today. All of our work since 1978 can be found on our Websites, and I encourage you—and everyone—to make use of it.

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## The EBRI Team - Full Biography



**Biography of**
**Dallas L. Salisbury**
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Dallas Salisbury, President and CEO of the Employee Benefit Research Institute (EBRI), joined EBRI at its founding in Washington, DC in 1978.

The overall EBRI mission is "to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education." EBRI has earned widespread regard as an organization that "tells it like it is." EBRI is supported financially by for-profit and non-profit corporations of all types, foundations, unions, government organizations, and international organizations seeking to better understand U.S economic security programs. The Institute does not lobby and does not advocate or oppose any policy position. The task of EBRI is to provide objective information regarding the employee benefit system and related financial security issues, to achieve its primary goal, 'that policy and design decisions be based on verifiable facts'. Researchers, policy makers and the media rely heavily on EBRI research. Dallas and his team regularly testify at Congressional and Commission hearings, and appear in print and broadcast media around the world. EBRI is the 14th most frequently cited "think-tank" in the nation using fair.org methods.

As a member of a number of commissions, Dallas assists study panels as well as editorial advisory boards. He is a Fellow of the National Academy of Human Resources and a member of the Board of the NAHR Foundation, the Commission on a High Performance Health System, the Board of Directors for FINRA Investor Education Foundation, and the Board of Advisors to the Comptroller General of the United States. He has served on the Secretary of Labor's ERISA Advisory Council, Presidential appointed PBGC Advisory Committee, Board of Directors of the Society for Human Resources Management, U.S. Advisory Panel on Medicare Education, and the Board of Directors of the National Academy of Social Insurance.

He has been honored with the Award for Professional Excellence from the Society for Human Resource Management, the Plan Sponsor Lifetime Achievement Award and the Keystone Award of World at Work. Dallas was a delegate to the 1998, 2002 and 2006 National Summit's on Retirement Savings, and the 2005 White House Conference on Aging. Dallas accepted a 2007 National Emmy Award for Savingsman and the Choose to Save public education program.

Dallas has written and lectured extensively on economic security topics. His most recent books are: "Retirement Security in the United States: Current Sources, Future Prospects, and Likely Outcomes of Current Trends", "The Future of Retirement Income in America", "The Future of Social Insurance: Incremental Action or Fundamental Reform?", "IRA and 401(k) Investing" and "Managing Money in Retirement".

Prior to joining EBRI, Dallas held full-time positions with the Washington State Legislature, the U.S. Department of Justice, the Employee Benefits Security Administration of the U.S. Department of Labor, and the Pension Benefit Guaranty Corporation (PBGC). He holds a B.A. degree in finance from the University of Washington and an M.A. in public administration from the Maxwell School of Citizenship and Public Affairs.

March 25, 2008

**Outside Articles / Columns / Interviews / Presentations**

**Articles**

"Double Check Retirement Model Assumptions." *HR Horizons* (October 2007).

"Retiring by 65: Pipe Dream for Older Boomer Women?" In Paul Hodge, ed., *Baby Boomer Women: Secure Futures Or Not?*, 2006.

"Are Individuals Taking Responsibility? Trends and Implications." *Benefits Quarterly* (Fourth Quarter 2005). [Note: abstract only available for free; full text requires username and password]

**Columns**
*Human Resource Executive Online* [Web-only]

**Interviews**
"Teach Your Children Well" [an interview featuring Dallas Salisbury focusing on the need for financial education and tools that show employees the probability of reaching retirement-income goals]. *PIMCO DC Dialogue* (January 2008).

"Interview with Dallas Salisbury: President & CEO of EBRI Offers Fascinating Historical Perspective on Today's Retirement Security Challenges; Reveals Preference for Mandatory, National Retirement Savings Program in Addition to Social Security." *Online Magazine* (October 15, 2007).

"Don't Drop the Ball on Benefits." *HR Management* (April 2006). [Note: At the home page, click on the link for HR Management US under 'Publishing'; next, click on the link for 'Past Issues' from 'The Publication' tab upper left, then the link for the April 2006 issue.]

**Presentations**
*Bending the Curve: Options for Achieving Savings and Improving Value in U.S. Health Spending* - Dec. 18, 2007, briefing at the National Press Club, Washington, DC.

*Health Coverage Revisited: Exploring Options for Expansion* - March 19, 2007, luncheon briefing cosponsored by The Commonwealth Fund and the Alliance for Health Reform. [Note: Click on the last link under 'Speaker Presentations']

*The Retirement Security Challenge* - Feb. 1, 2007, presentation at the National Academy of Social Insurance (NASI), 19th Annual Conference.

*The State of US Retirement Plans* - May 23, 2006, slide presentation at the National Press Foundation's four-day seminars titled *Retirement Issues in the 21st Century*.

*The Employment-Based Pension System: Evolution or Revolution?* – May 15, 2006, one-day conference cosponsored by AARP and EBRI.

*What Do the Data Say about the Future of Employee Benefits?* - April 17, 2006, teleconference presentation, Human Resource Strategic Excellence Network.

For Release Upon Delivery
10:00 a.m., April 15, 2008

TESTIMONY OF

BARRY R. WIDES

DEPUTY COMPTROLLER FOR COMMUNITY AFFAIRS

OFFICE OF THE COMPTROLLER OF THE CURRENCY

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

OF THE

U.S. HOUSE OF REPRESENTATIVES

APRIL 15, 2008

Statement Required by 12 §U.S.C. 250:

The views expressed herein are those of the Office of the Comptroller of the Currency and do not neeessarily represent the views of the President.

Chairman Frank, Ranking Member Bachus, and members of the Committee, I am Barry Wides, Deputy Comptroller for Community Affairs, at the Office of the Comptroller of the Currency. I am pleased to appear before you today to discuss the OCC's involvement in and perspectives on governmental and private sector financial literacy and education initiatives.

Financial literacy is a key component of ensuring that all Americans have fair and equal access to credit and banking services. In my testimony today, I will discuss the needs and importance of financial literacy, the role that the OCC plays in promoting financial literacy and education throughout the national banking system and the local communities served by national banks, and the challenges that lie ahead.

**The Need for Financial Education in America**

A number of recent surveys have found that large majorities of adults in the United States consider their financial knowledge and ability inadequate. Many young adults leave school lacking basic personal financial skills that would help them navigate our financial system and maximize their long-term financial well-being. In addition, many senior citizens report an increased need for help in investing, retirement planning, and taxes.

The Jump$tart Coalition has conducted biennial financial literacy surveys over the past decade. In results just released for the 2008 Jump$tart study, high school seniors answered, on average, about half of the questions about personal finance and economics, and college students fared only slightly better. Yet, fewer than 30 percent of high school students are offered instruction in money management and personal finance.

Title V of the Fair and Accurate Transactions (FACT) Act of 2003 recognized the need to improve financial literacy and to deliver financial education across the country. The Act's passage led to the formation of the Financial Literacy Education Commission, which is made up of 20 federal agencies.[1] The Commission developed a framework for a national strategy to make it easier for people to take advantage of existing financial education resources. The resulting strategy is detailed in *Taking Ownership of the Future: The National Strategy for Financial Literacy 2006*, which covers 13 areas of financial education and contains 26 specific calls to action.

The OCC is one of the agencies represented on the Commission. In that role, we have been active in helping to carry out the Commission's mandate to identify best practices, leverage the activities of the public, private, and nonprofit sectors, and coordinate the federal government's financial literacy and education efforts. In addition to assisting with the Commission's National Strategy, the OCC makes many other direct contributions toward promoting financial literacy.

## The OCC's Involvement in Financial Literacy

My testimony next describes our recent activities in key areas identified in the National Strategy: building public awareness, developing dissemination strategies, and tapping into public-private partnerships.

### Building Public Awareness of Available Resources

In his many speeches and visits around the county, Comptroller of the Currency John Dugan has stressed the need to help national bank customers become more aware of the resources available to them, and the OCC has taken steps to address that need.

Last summer, the OCC launched *HelpWithMyBank.gov*, a clearinghouse that provides information for customers of national banks and answers questions that are commonly asked of the OCC's customer assistance specialists. Since the OCC launched the new Web site, *HelpWithMyBank.gov* has received approximately 5,000 visits per week.

*HelpWithMyBank.gov* includes links and references to financial information and resources. It is updated regularly and currently provides answers to more than 250 common questions, under such broad topics as credit cards, bank accounts, mortgages, consumer loans, insurance, identify theft, leasing, and safe deposit boxes.

**Developing Strategies for Disseminating Tailored, Targeted Materials**

***Public Service Campaigns and Advisories***

The OCC supports a number of public service campaigns to provide educational messages to local print and radio outlets in English and Spanish nationwide. Topics include what consumers need to know about gift cards, debt elimination scams, and foreclosure prevention. These public service announcements have run over 7,600 times in 41 states over the past 15 months with a cumulative potential audience of more than 900 million people.

Over the past three years, the OCC has issued several consumer advisories that help consumers use bank products and services more effectively. We issue new advisories as we become aware of evolving challenges for consumers in the financial marketplace. The OCC's consumer advisories are available in print and through the OCC's consumer protection news Web page at *www.occ.gov/consumernews.htm*.

***The OCC's Resources and Publications***

The OCC's Community Affairs Department also helps national banks become leaders in providing retail services to underserved communities and consumers. For example, we post a Financial Literacy Web Resource Directory on our Web site (*www.occ.treas.gov/cdd/finlitresdir.htm)* that provides information about new financial literacy programs and consumer protection initiatives. The directory includes descriptions and contact information for a sampling of public and private organizations that have undertaken financial literacy initiatives as a primary mission. These activities are organized under seven broad categories:

- Financial Literacy and Education Commission activities and initiatives
- Basic financial services and asset-building programs
- Credit management and repair
- Homeownership counseling
- Recognizing and avoiding abusive lending practices
- Small business and microenterprise technical assistance
- Financial literacy for limited English proficiency populations

The OCC publishes electronic and print publications related to financial literacy, consumer protection, and community development best practices. Recent reports have featured articles on such topics as asset-building products for lower-income consumers and reaching minority markets.

We distribute these materials at our training and educational meetings held throughout the year and send our publications and news updates electronically to over 15,000 individuals on a regular basis. All of the OCC's financial literacy publications and Web links are available on

the Financial Literacy and Education Commission's Web site, *MyMoney.gov*, which enables users to access financial education materials from federal agencies.

OCC's Community Affairs Officers stationed around the country use these materials when they consult with national banks about financial literacy outreach initiatives they might undertake as part of their Community Reinvestment Act (CRA) programs. The OCC sponsors numerous other conferences, summits, and roundtables with federal regulatory partners to hear from practitioners and researchers in the field of financial literacy. Many of these forums are summarized on the OCC's Web site.

Over the past two years, the OCC has devoted resources to help address specific challenges to providing financial education. The OCC, the Department of Treasury, and other federal agencies that serve on the Financial Literacy and Education Commission recently hosted a series of conferences around the country to share strategies and best practices. At these conferences, we distributed several OCC publications, including copies of our *Community Developments* newsletters.

Another important OCC dissemination strategy involves participation in annual events on financial literacy and consumer education, such as National Consumer Protection Week and Financial Literacy Day. These opportunities help remind consumers that the best way to protect themselves against unfair, deceptive, and fraudulent practices is to stay informed. We support those events by sharing information, resources, and providing staff to answer questions on topics that include gift cards, cashiers checks, nontraditional mortgages, and how to obtain assistance through OCC's Customer Assistance Group.

**Tapping into Public-Private Partnerships**

The OCC maintains a number of liaisons and relationships with national and regional community groups promoting financial literacy, as well as assisting national banks in such undertakings. For example, the OCC is one of four federal agencies to have a formal partnership with the National Academy Foundation, a nonprofit organization dedicated to preparing youth for challenging careers.

The National Academy Foundation sponsors the Academy of Finance, a school-to-career curriculum operating in 41 states and the District of Columbia. The OCC collaborates with schools and school districts in locations across the country to support these Academies of Finance. Bank and OCC staffs serve as advisory board members to local affiliates and employ hundreds of high school students every summer through the Academy's internship program.

The OCC supports other banking programs in schools, which are an excellent tool for educating students about the financial system and encouraging savings and sound money management skills. To facilitate the ability of national banks to establish such programs in schools, we issued a regulation in 2001[2] that clarifies how national banks can undertake in-school banking programs without having to go through a formal branching application process.

Many national banks have undertaken school-based banking programs. In February of this year, Comptroller Dugan accompanied representatives from our five largest banks on a visit to a school banking program in New York, and we are developing a report to guide banks considering similar in-school programs.

As one of the agencies serving on the Board of Directors of NeighborWorks America, the OCC has been a staunch supporter of its community development and financial literacy

activities. NeighborWorks offers a financial fitness education program that was first begun to encourage homeownership. Many of NeighborWorks' 235 local affiliates deliver financial fitness programs, which are structured to include formal classes, individual counseling and peer-support for continued sharing and learning. Over 8,000 persons have graduated from this program and have gained knowledge and skills that will help them successfully access and use financial products and services.

The OCC offers its expertise to further NeighborWorks' activities in supporting community-revitalization efforts. National banks play an important role in serving on the boards of directors of local NeighborWorks organizations and offering special first-time homebuyer mortgage products in conjunction with these organizations' counseling programs. The OCC's Community Affairs Officers consult with national banks about opportunities for partnerships with NeighborWorks network members. These contacts facilitate bank transactions that involve borrower education and counseling, loan packaging and subsidies.

The OCC also provides staff support and expertise to the Department of Treasury's Community Financial Access Pilot, whose purpose is to increase access to financial services and financial education for low- and moderate-income people in eight cities across the county. The project, scheduled to launch this year and be completed by the end of 2009, will provide technical assistance and coordination to selected communities to develop sustainable projects and strategies to bring more low- and moderate-income unbanked people into the financial mainstream.

Each pilot site will receive assistance from community consultants in assessing community needs, facilitating partnerships, and working with local organizations to develop appropriate financial products and educational services. The Department of Treasury will use

best practices learned from its First Accounts Program and the Financial Literacy and Education Commission's regional conferences on reaching the unbanked as part of this technical assistance.

A growing number of banks are participating in financial initiatives to enhance consumer financial skills and extend their bank products to underserved markets. By one count, as many as 90 percent of banks surveyed by the Consumer Bankers Association offer or support financial literacy programs for homeownership.[3] Such efforts have helped banks extend their markets, while reducing the risk of serving these new, educated customers.

Because of such efforts, some banks have received positive consideration under the CRA for their participation in financial literacy programs and activities such as credit counseling, home-buyer and home-maintenance counseling, financial planning or other financial services education that promote community development and affordable housing for low- and moderate-income individuals.

In 2001, the OCC issued an Advisory Letter[4] encouraging bank involvement in financial literacy activities that divided financial literacy activities into five broad categories:

- Basic financial services and asset-building, providing a working knowledge of financial products, financial planning, and an overview of the U.S. banking system.
- Credit management and repair, enabling individuals to correct and learn from their previous financial shortcomings.
- Homeownership counseling, preparing homebuyers to purchase and sustain their investment and ownership.
- Consumer education, aimed at recognizing and avoiding abusive lending practices and inappropriate loan products.
- Small business and microenterprise technical assistance, providing entrepreneurs and business owners with practical knowledge.

Working individually or with community organizations and governmental agencies, banks have found many ways to participate in local and national financial literacy efforts using this guidance to help potential bank customers and strengthen the bank's CRA rating.

Banks have helped develop financial literacy programs, provided employees to serve as educators and trainers, and participated in numerous school programs and special events. They also have supported financial literacy through volunteer staff assistance, loans, and contributions, and contributed resources to programs for the unbanked.

Our review of these financial literacy programs leads us to agree with the research findings that conclude that those financial literacy activities that link demand for financial knowledge with opportunities to make good financial decisions have been the most successful. For example, studies have shown that when financial education is offered in the workplace, participation in the employer's retirement savings plans, such as a 401(k), increases.

Such matches show promise in increasing the savings of families participating in the Temporary Assistance for Needy Families Program, as well as lower-income wage earners receiving tax refunds and Earned Income Tax Credits. The OCC's 2005 study of Individual Development Account programs[5] found that these accounts can be an asset-building product for lower income consumers when financial education is provided and savings are matched for those who complete this education.

A further analysis shows that good financial behavior is more likely to be sustained when mainstream banking programs are involved. For over a decade, banks have made progress offering such services as checking accounts and remittances to the millions of Americans who are unbanked and underbanked. Bank involvement has the potential for tailoring and

standardizing these products, resulting in less operational burdens and stronger community partnerships.

A growing number of banks, nonprofits, and governmental entities are joining the search for more productive ways to deliver financial education programs in their efforts to create the right products, risk management policies, and marketing programs to attract customers to mainstream banks, and to retain them in a safe and sound manner. Banks are utilizing many of these best practices today, in partnership with many community stakeholders.

**Challenges Ahead**

The Committee asked that we discuss what additional regulatory or legislative changes, if any, would be needed to assist in the effort to improve financial literacy and education in the United States. Comptroller Dugan suggested recently that we consider, on a limited basis, providing positive CRA consideration for loans and investment activities that revitalize and stabilize middle-income areas impacted by foreclosures.[6]

The OCC is working with the other banking agencies to develop a proposed change to the CRA regulations that would revise the definition of "community development" to provide CRA credit for communities that are "declining" based on unprecedented levels of foreclosures and related economic factors.

Another thought to consider is whether CRA consideration is appropriate for financial literacy and education activities provided to homeowners in these same middle-income impacted areas. Presently banks may receive CRA consideration for supporting housing counseling and financial education targeted to low- or moderate-income individuals.

Given the rising need for financial counselors to assist borrowers who are having difficulty meeting their mortgage payments, additional CRA incentives may be helpful to encourage additional bank partnerships with nonprofit housing counseling organizations. These incentives can play a critical role in helping to develop workout plans for struggling borrowers, as well as helping these individuals develop financial management strategies to stabilize their situation going forward.

Housing counseling groups tell us that once a workout has been developed, borrowers can benefit from the on-going assistance of a trusted community-based organization to help them improve their financial management skills and stay on track financially. Lenders report seeing declines in the re-default rates on restructured loans when the borrower stays actively involved in a "financial fitness" program with a reputable credit counseling group.

**Conclusion**

Given the financial challenges presented today, the time is right to bolster financial literacy for students, for working people, and for those facing retirement. The federal government and the private and nonprofit sectors are putting significant efforts toward financial education, but there is more work to do. We look forward to working with you to promote financial literacy.

Mr. Chairman, and Members of the Committee, this concludes my prepared statement. I would be glad to answer any questions you or Members of the Committee may have.

References:

[1] To carry this important work forward, President Bush established on January 22, 2008, a White House Working Group on Financial Literacy under the Department of Treasury and the first President's Advisory Council on Financial Literacy to focus on expanding access to financial services and increasing financial education for youth and adults. The President and the Secretary of the Treasury have tasked the Council to work with the Financial Literacy Education Commission and the public and private sectors to help increase financial education efforts for all Americans.

[2] 12 C.F.R.§7.1021 [66 FR 34791, July 2, 2001]

[3] Consumers Bankers Association, *2004 Financial Literacy Survey Report.*

[4] "Financial Literacy," OCC Advisory Letter (AL 2001-1), January 16, 2001.

[5] "Individual Development Accounts: An Asset Building Product for Lower-Income Consumers," Community Developments *Insights,* February 2005.

[6] "Comptroller Dugan Urges Action to Help Communities Suffering from Effects of Mortgage Foreclosure Crisis," OCC News Release, NR 2008-14, February 12, 2008.

Testimony of

American Institute of Certified Public Accountants

And

360 Degrees of Financial Literacy

Before the
House Financial Services Committee

United States House/Senate

April 14, 2008

The American Institute of Certified Public Accountants appreciates the opportunity to submit testimony to the Committee on the subject of financial literacy. The AICPA believes strongly in the importance of widely available and effective financial literacy programs and has long considered them to be a professional responsibility that we take quite seriously.

Americans of all income levels and at all stages of life today are faced with such complicated economic situations that understanding the existing financial landscape is essential to economic independence and growth. Whether a teenager just entering the workforce who needs to learn the fundamentals of bank accounts and credit cards, a young married couple trying to ensure their child will be able to attend college, or an older investor thinking about retirement and elder care, all Americans are in need of financial education.

We'd like to share with you some startling facts that showcase the current condition of Americans' financial literacy and how it directly affects economic prosperity.

Americans are on a collision course with financial disaster. According to a March 2008 Gallup Poll:

- 43% of 50-64 year-olds worry they will have to retire later than they had planned due to lack of savings.
- 53% of both 30-49 year-olds and 50-64 year-olds say they are similarly worried about outliving their money.
- 26% of Americans consider the debt they are carrying to be unmanageable, according to a Harvard Business School survey.

Clearly, the need for financial education is greater than ever. A 2008 Harris Interactive Poll conducted on the behalf of the AICPA found that many Americans feel they are having a harder time getting by and are nervous about the future of the economy.

- Four-in-ten (41%) American adults indicate that they have delayed major life decisions for financial reasons. These decisions include homeownership, higher education, retirement, medical procedures, marriage, or children.
- Half (52%) of Americans are more worried about their personal financial condition compared to one year ago. This number rises to 64% among those with total annual household income below $50,000.
- As further evidence of Americans' concerns over the economy, one-in-four (24%) indicate they are considering a second or part-time job to cover current expenses (representing approximately 55 million Americans). This marks a significant increase from the March 2007 study when 16% of adult Americans indicated they were considering a second or part-time job to meet current expenses.

Americans today face great financial uncertainty. Twenty and 30-somethings are unprepared to save and manage money. Forty to 50 year-olds cannot get out of the debt incurred when they were younger. And seniors are finding themselves with barely enough money to retire comfortably let alone at the standard at which they have been living.

This means that with a basic education and understanding of the financial playing field, individuals and families face can radically and positively affect the economic health of those individuals and Americans and our nation as a whole.

It is encouraging that Congress has recognized the significance of financial literacy education. Senate Resolution 495, which designates April as Financial Literacy Month, and House Resolution 1079, which supports financial literacy goals in general, are an excellent start.

But legislation and official recognition will not be enough. Expanding awareness of and support for nonprofit initiatives will be critical to bringing Americans up-to-speed on the complex world of personal financial management.

As Certified Public Accountants who are trained to understand this landscape and who have a responsibility and requirement to stay up-to-date through continuing professional education, we are in a unique position not only to explain why financial literacy is important, but to design and implement programs that are widely available.

AICPA is not suggesting a massive infusion of federal dollars to create these programs - the infrastructure and educational foundation for teaching Americans fundamental financial skills are already in place.

AICPA's comprehensive effort—360 Degrees of Financial Literacy—is a broad-based program that helps Americans from childhood to retirement. In offering basic resources for understanding money management for college, marriage, parenthood and other major life events, 360 Degrees of Financial Literacy is a blueprint for the type of financial instruction more Americans should be receiving.

The AICPA and state CPA societies launched 360 Degrees of Financial Literacy in 2003 as a national volunteer effort of the CPA profession to improve the financial understanding of all Americans. CPAs, either through state societies or individually, volunteer their time and expertise to help Americans gain knowledge and power over their personal finances. The initiative sends the message that financial education should be a lifelong endeavor—from encouraging children to learn the habit of saving to helping adults plan for a secure retirement.

As the national professional organization for all CPAs, the AICPA provides CPAs with the resources to help Americans gain knowledge and power over their personal finances. At the local level, CPAs offer financial education courses on a range of topics and to a variety of audiences. Under the umbrella of 360 Degrees of Financial Literacy, the state CPA societies conduct workshops, host seminars, contribute to radio shows and newspaper columns and more.

These workshops offer Americans an opportunity to learn about the financial complexities and choices that affect their daily lives.

All 50 states plus the District of Columbia and Puerto Rico are homes to state CPA societies devoted to this issue. CPAs that are members of local organizations volunteer their time to work with individuals and families, giving them the necessary tools to manage their money. Thousands of CPAs are volunteering their time nationwide.

The AICPA's award-wining financial literacy Web site (www.360financialliteracy.org) is the centerpiece of the campaign, where consumers can find extensive free resources to help them make sound financial decisions. The site features free, valuable information for Americans at all stages of life. Information is available in the forms of articles, reports, surveys and studies. Tools such as savings and budget calculators and checkbook balancers are available. Frequently Asked Questions on issues related to the financial aspects of marriage, student loans, retirement and entrepreneurial investments help consumers gain additional knowledge.

The site receives an average of more than 100,000 visitors each month and is ranked highly on all major search engines. The site is free from advertising, sales, promotions and branding.

In addition, the AICPA offers free resources and opportunities for all state CPA societies and thousands of CPAs volunteers. Together, the work of the AICPA, states societies and CPAs has benefited hundreds of thousands of Americans. Grassroots programs that are having an impact on the communities they serve include:

- The **California Society** arranged for CPA volunteers to offer free financial counseling to victims of the wildfires that seared Southern California in late 2007.
- **Georgia Society** members, in partnership with the Atlanta Prosperity Campaign, volunteer to prepare free tax returns at a Volunteer Income Tax Assistance (VITA) site at the Goodwill Training Center in Decatur.
- The **Massachusetts Society** (MSCPA) partnered with Boston College to bring college seniors the "Successful Start Financial Literacy Program." The goal of the program was to educate college undergraduates on the importance of financial planning. Due to the seminar's huge success, the MSCPA plans to hold additional seminars during the fall semester.
- The **New Jersey Society** offers a program titled "Retirement Planning for Dummies" throughout the state. In the last year, more than 125 attendees visited five of the state's leading public accounting firms to hear tips on retirement planning.
- The **Virginia Society** offers the "Ask a CPA E-mail Program" as part of its Financial Fitness initiative. CPA volunteers provide answers to personal financial planning questions within three business days. This free e-mail program is open to all Virginia residents.
- The **Wisconsin Institute** and its Young Professionals committee travel to local colleges and universities to present a financial literacy seminar on the importance of saving, budgeting and credit cards. Recent graduates teach students how to wisely save and spend their money after they graduate and start their first jobs.

These initiatives demonstrate the collective commitment of the AICPA and the state CPA societies to reach out to Americans in order to help improve their financial situation.

In an effort to build on these successes and extend the reach of 360 Degrees of Financial Literacy, in 2006 the AICPA joined forces with the Ad Council, an organization with a history of raising awareness about significant public issues, to launch a national public service campaign focused on financial literacy.

The campaign, Feed the Pig™, targets 25-34 year-old working men and women, known as "Career Builders." Their need is particularly great. These young people have been called Generation Debt. On average, they leave college with more than $20,000 in combined student loan and credit card debt.

In addition, 25–34 year olds are not saving enough according to an AICPA-commissioned study by Dr. Christopher Thornberg and Dr. Jon Haveman, economists with Beacon Economics in Los Angeles. Their research reveals:

- The median net worth of Americans in the 25–34 age group is significantly lower than it was 20 years ago, despite increases in income: In 1985, it was $6,788; in 2004, it was $3,746.
- On average, net worth for 25–34 year-olds was 99% of income in 1985; by 2004, it was 92%.
- The number of people in this demographic maintaining an interest-bearing account or other savings instrument is declining, from 65% in 1985 to 55% in 2004. Notably, the ownership of the most accessible of these instruments, a simple savings account with a bank, fell from 61% to 47% between 1985 and 2004.
- There is an increased willingness among Americans in this age group to acquire unsecured debt: The average level of debt in 1985 was $3,118, whereas in 2004, it climbed to $4,733.

Finally, Career Builders are often grappling with monumental new life stages, such as marriage and parenthood and they're beginning to think about their own retirement or their parents' future health. These are all critical life stages requiring specific financial knowledge and actions. Young working Americans cannot afford destructive financial behaviors. They must take steps to improve their finances and prepare for the future.

Feed the Pig inspires its target audience to reignite the savings habit by taking small, easy steps to take control of their finances. By drawing upon a traditional image of savings, the piggy bank, the campaign takes that icon and makes it relevant for young Americans. The campaign reaches the target audience through a variety of media including TV, radio, print, outdoor and Web public service advertisements (PSA), as well as through demographic-appropriate media such as podcasting and social networking Web sites. All media placements are donated.

The target audience can find free financial information and tools to help them make positive changes by visiting www.feedthepig.org. The site receives 100,000 visitors each month. More than 82,000 have signed up to receive weekly reminders featuring easy and practical tips to pay down debt and increase savings. For more in-depth information, visitors are directed to the highly successful 360 Degrees of Financial Literacy consumer Web site, www.360financialliteracy.org, as it offers additional guidance and information on financial literacy programs in their communities.

Research indicates that if they're given the right message and the right motivation, Career Builders are likely to change their saving and spending behaviors. And because their retirement

is in the relatively distant future, their current financial decisions have a greater impact—positive or negative—on their long-term financial security. Feed the Pig is reaching its target audience with the right message and making an impact.

According to a study conducted by the Ad Council in late 2007, individuals who have seen or heard a Feed the Pig PSA are more likely to change their financial behavior for the better.

- Respondents who recalled seeing or hearing the PSAs were more likely than those who had not to report that, in the past six months, they have taken action to learn more about managing their finances. Reported activities include:
    - Discussing ways to save money with friends and family (84% vs. 67%)
    - Visiting a website to get more information about how to save money (62% vs. 34%)
    - Calling a toll-free number to get more information on how to save money (32% vs. 4%)
    - Contacting a financial counselor (45% vs. 13%)
- Respondents who recalled seeing or hearing the PSAs were more likely to claim they always take certain actions to save money, such as:
    - Keeping a budget of their expenses (33% vs. 19%)
    - Saving for long-term financial goals such as education, a house or retirement (30% vs. 18%)
    - Bringing a bagged lunch to work and/or eating leftover meals (29% vs. 21%)
    - Comparison shopping for the purchase of most items (49% vs. 23%)
    - Increasing savings when they receive a salary increase (27% vs. 16%)

Feed the Pig is resonating with Americans of all ages:

- "I want to thank you for having something like this available to millions who need to hear it… I'll be sending this info to my friends and family. We were struggling financially (badly) early in our marriage, but, through reading books and going to seminars, we learned how to get our act together and make a brighter financial future for ourselves. That was 12 years ago and we're still going strong."
- "Your commercial…is one of the best ads that I have seen. Hopefully it is having a similar impact on others as it had on me. I am a 70 year-old-man so it really hits home when I see my 45 year old children buying these TV sets [and other big ticket items] on credit."
- "I heard your 'Feed the Pig' announcement on a rock station recently in North Central Illinois. I'd like to say thank you for send out a message to the youth of the country that you don't have to spend every dime you earn!"

Feed the Pig is making an impact in large part due to state CPA society involvement:

- The **Florida Institute** participated in the annual Children's Capitol for a Day Rally in celebration of Florida's Children Week. Children of all ages participated in games designed to promote the Feed the Pig campaign while teaching smart money habits. A popular exercise was the 'piggy bank toss' where children tossed money bean bags into a large piggy bank to earn interest in the form of chocolate coins.
- To raise awareness about the importance of financial literacy, Benjamin Bankes and Nick Nauman, the **Iowa Society**'s Vice President, threw the first pitch at the Iowa Cubs minor league baseball game on August 20. The ISCPA also gave away five piggy banks with $10 cash in each before the second inning.

- The **Minnesota Society** participated in Radio Disney Move It! during the summer of 2007. The flying pig balloon that attracted shoppers and children to the society's table was the highlight of the event. Society staff spoke to parents and kids about the importance of saving money while they handed out Feed the Pig items.
- The **Oregon Society** sponsored the fifth-annual Chalk It Up for Literacy on August 4 in Portland. Activities included financial literacy trivia for adults and a piggy bank bean bag toss for kids. Attendees received piggy stress balls, bubblegum coins and stickers.
- In April 2007, the **Pennsylvania Institute** and Benjamin Bankes hosted a breakfast meeting for freshman members of the Pennsylvania State Legislature to discuss financial literacy. Later that day, Governor Edward Rendell proclaimed April as Financial Literacy Month in Pennsylvania. As part of its financial literacy month activities, the Institute organized a seminar for college students where CPAs provided information to help prepare them for life after graduation. Topics included repaying student loans and managing credit card debt.
- Governor Joe Manchin III attended the **West Virginia Society** press conference announcing the state's involvement in the Feed the Pig campaign. In his remarks, the Governor spoke about the importance of financial literacy to West Virginians and encouraged public education on the topic. The previous evening, the society introduced Benjamin Bankes to legislators who attended the society's Annual Legislative Reception.

During fall 2008, the next round of Feed the Pig PSAs will be released. These ads will seek to continue to change the thinking the campaign's target audience has about money and saving and offer simple steps to start saving. The campaign also will be extended to a younger audience through the release of a curriculum for $4^{th}$–$6^{th}$ graders. The program will teach and enforce smart saving and spending habits with in-class, online and take-home activities.

The success of 360 Degrees of Financial Literacy and Feed the Pig relies on partnerships with many other organizations offering financial education opportunities. These relationships allow the AICPA and state CPA societies access to new resources and audiences while providing partners with the benefit of CPA volunteers' knowledge and involvement:

- The AICPA is an underwriter of the **Employee Benefit Research Institute**'s 2008 Retirement Confidence Survey as well as a sustaining partner of the **American Savings Education Council** (ASEC). In April 2008, ASEC and AICPA will release a joint press release to promote the savings messages of ASEC's Choose to Save campaign and Feed the Pig.
- This year, the AICPA participated in **America Saves Week**. The Institute encouraged all state societies to promote the effort in their communities. A special America Saves Week/Feed the Pig Savings Tip was distributed to over 65,000 individuals via email.
- Through an ongoing partnership with the **Department of Labor's Employee Benefits Security Administration** (EBSA), small business owners and their CPAs attend free seminars as part of the EBSA's Health Benefits Education Campaign. The AICPA hosts EBSA's, www.choosingaretirementsolution.org, a Web site to help small business owners understand the many retirement plans available and to assist in the selection that is best suited for their business and their employees.
- The AICPA supports the national **Jump$tart Coalition** and many state CPA societies partner and their members volunteer with **Jump$tart state coalitions**.

- To help Americans regain financial balance following disaster or to establish a plan to prepare for one, the AICPA and the **National Endowment for Financial Education** (NEFE), jointly developed two guides: *Disaster Recovery: A Guide to Financial Issues* and *Disaster Planning: A Guide to Preparedness*.
- A partnership with the **Federal Deposit Insurance Corporation** promotes its "Money Smart" financial education program to state CPA societies and CPA volunteers and encourages use of its materials to reach out to the program's target audience, the unbanked.
- Each year, AICPA members volunteer as tax experts to answer questions received on **USA Today's** Web site.

We know from our experience that these programs can be successful and that they are well received. We encourage Congress to support programs like this throughout the country and especially consider formally implementing aspects of financial literacy education in public schools. The need may exist for high school seniors to be more financially literate, but we cannot wait for someone to enter the $12^{th}$ grade to begin that education.

Citizens need access to financial education that addresses the issues they experience at specific life stages. What people need to know about money management changes as they journey through childhood, college, career, parenthood, home ownership, and retirement. Life crises, such as job loss or disaster, can affect finances at any moment. Without the benefit of financial literacy, American individuals and families are less likely to save for their futures, prosper economically and avoid poverty.

The CPA profession is united and committed to helping Americans develop the skills they need to take charge of their finances. The AICPA, the state CPA societies and CPA volunteers are beginning a revolution within our country. This revolution aims to empower Americans to change their own financial destiny and the financial destiny of future generations.

**Statement by Mellody Hobson, President, Ariel Capital Management, LLC and Chairman, Ariel Mutual Funds Board of Trustees**

**For the Hearing on "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives" of the**

**House Committee on Financial Services**

**April 15, 2008, 10:00 a.m., 2128 Rayburn House Office Building**

Chairman Frank, Ranking Member Bachus, distinguished Members, thank you for the opportunity to submit this statement for the hearing "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives." My name is Mellody Hobson and I am the President of Ariel Capital Management, LLC, a privately owned Chicago-based money management firm with more than $12 billion in assets under management, founded in 1983 by John W. Rogers, Jr. In addition to managing separate accounts for corporate, public, union and non-profit organizations, Ariel Capital Management also serves as the investment adviser to the publicly-traded, no-load Ariel Mutual Funds.

Patience serves as the core of our investment philosophy. Ariel Capital Management was built around the belief that patient investors will be rewarded—that wealth can be created by investing in great companies, selling at excellent prices whose true value would be realized over time. As such, we believe our long-term performance is driven by our disciplined and focused approach, our stock selection across industries where Ariel has proven expertise, our exhaustive investigative research process and our commitment to investing in quality businesses that are typically undervalued or ignored.

When I first came to Ariel, I knew very little about investing. Like most young Americans, I did not have the chance to learn about the stock market in school, and it certainly was not a regular topic of conversation at my home. But once immersed in the business, learning about investing opened the door to an entirely new world for me. Research shows how little American children in general—and minority, inner-city children in particular— know about money and investing. From the time they are born, many inner-city kids are left to believe that they lack control of their financial futures. In school, they are not taught even the most basic financial concepts, much less about "wealth creation." At Ariel, we have embraced education as the most promising way to change these children's expectations for themselves. Our efforts to support education take many forms, and clearly, our financial support is important. But most of us see ourselves as hands-on participants, not just spectators or financial benefactors. So there is a roll-up-your-sleeves attitude that energizes and personalizes what we do.

In 1989, we created the Ariel Foundation—now the Ariel Education Initiative—to provide a focal point for our efforts. Its first undertaking, in 1991, was as a participant in the "I Have a Dream Program," whereby we promised the entire 40-student, sixth-grade class of Chicago's Shakespeare Elementary School that we would make college

affordable for each student who graduated from high school. Beyond this financial guarantee, we provided tutoring, mentoring and moral support along the way. Ultimately, 27 graduated and 22 went on to college—an unheard-of percentage in a Chicago neighborhood with a 70% high school dropout rate. However, for a range of reasons—including patterns developed much earlier in school and in life—several simply could not stick with college, despite our time, attention and money.

As a result, we realized that to really make a difference we needed to remember our patient view. To think longer term and reach kids earlier in their lives. That is the goal behind Ariel Community Academy (ACA), a small Chicago public school that we helped found and now help fund. The ultimate in teamwork, ACA involves students, families, the school, the community, Nuveen Investments—and Ariel—in a partnership focused on the all-around well-being of children. It offers a real-world curriculum, including an investment program that begins in the first grade, when each class receives a "class portfolio" of real money—$20,000. Over the years, as the students progress through school, they watch their portfolio and how it performs, taking greater and greater responsibility for its management over time. By the time they enter sixth grade, they begin to make their own investment decisions with a portion of the portfolio. When they graduate, they give $20,000 back to the first grade to make the program self-perpetuating. Then they help decide what to do with the remainder—including how much to direct to scholarships and philanthropy, as well as how much to contribute to the Academy and its endowment. The students are then given either a check for their individual percentage of the portfolio or an additional $1,000 if they elect to invest their earnings into a 529 Savings Plan.

To help the kids better understand the importance of investing and how it works in practice, we continually seek to offer real-life financial experiences. For example, we held our company's own 20th anniversary annual meeting at the Academy. It was an exciting day for the students—and for us. The kids were each paired up with an Ariel employee for the duration of the meeting. The kids played a role in the meeting, including calling it to order and adjourning us. During the Q&A session, they asked insightful questions about Ariel's performance and our investment decisions. For us, it was great to see young people using their investment knowledge and gratifying to realize that they were not the least bit intimidated by the setting, or by us and our other shareholders. It was especially heartening to see that they are becoming comfortable and capable in a world that was effectively "off limits" to them just a short time ago.

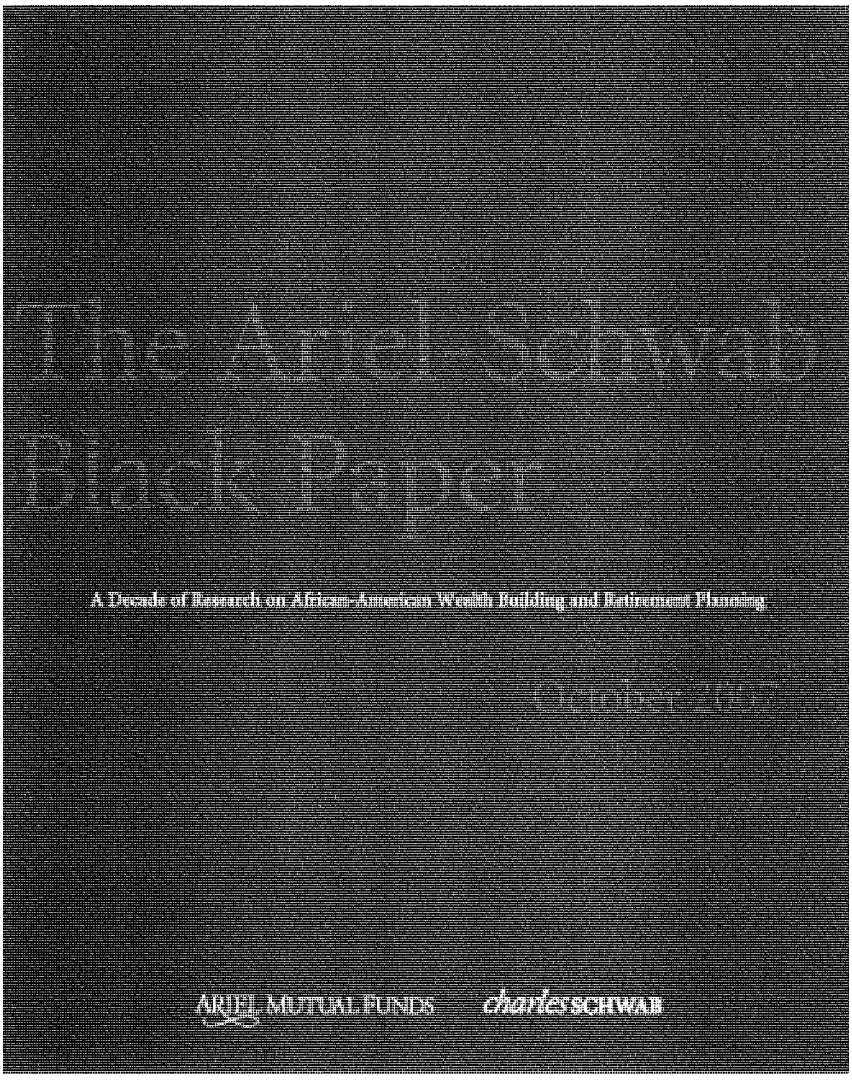
At Ariel, we believe that, like a great education, investing can change lives. We hope that by teaching the fundamentals of investing, we are helping kids discover a whole new way of looking at the world. If we are successful, we think it will transform not only dinner table conversation in the Black community, but also the future, for generations to come. We know it is an ambitious goal, but what better investment can there be? And the need is more pressing than ever.

With the largest generation in American history set to begin retiring, the country is facing a retirement crisis. Almost half of Americans today have little or nothing saved. The

vast majority have far short of what they will need. Fewer and fewer Americans today have jobs offering guaranteed pensions and many public and private pension systems are underfunded. Many pensions affiliated with financially troubled companies are also at risk of collapse, and the federal agency set up to insure them is severely underfunded.

By most estimates, Social Security is in need of supplement and even under the best of circumstances is inadequate to funding a secure retirement for working Americans. The typical retiree lives for 17 years after retiring at 65. The typical retired couple spends more than $200,000 on health care in their old age. Defined contribution plans (401(k) and 403(b)) were never intended to replace traditional pensions (defined benefit plans) but for more and more people today, they are the only way of saving for retirement. The problem, however, is that most people do not save nearly enough and do not manage well the money they have.

These problems are even more extreme among minorities, who have less first-hand experience with money management than society as a whole. I have provided Ariel's 2007 report entitled "The Ariel-Schwab Black Paper: A Decade of Research on African-American Wealth Building and Retirement Planning" for the hearing record. At Ariel we have learned that for middle-class African-Americans, the march toward financial security has been an uphill journey marked by half steps, pauses and, for some, retreat. Over the last decade, Ariel Mutual Funds and The Charles Schwab Corporation have commissioned annual research comparing the saving and investing habits of middle- and upper-income Black and White Americans. The results consistently reveal that Blacks save less than Whites of similar income levels and are less comfortable with stock investing which impedes wealth building across generations and contributes to the growing retirement crisis. The Black Paper is our call to action and I hope it will provide the Committee, industry, employers, and communities proactive measures to take in order to enhance financial security for all Americans. I thank the Committee again for taking up this important issue, and welcome any questions or comments you may have.


A Decade of Research on African-American Wealth Building and Retirement Planning
ARIEL MUTUAL FUNDS
charlesSCHWAB

# An open letter to the financial services industry, government policymakers, employers and community leaders:

At the very heart of this great and wealthy nation lies a terrible irony and pressing challenge: despite our wealth and in the face of decades of social progress, we are not doing enough as individuals and collectively as a nation to assure the long-term financial security of our citizens in retirement. Few other issues touch our population as broadly, yet for some, the challenge is even greater.

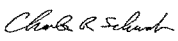
For middle-class African-Americans, the march toward financial security has been an uphill journey marked by half steps, pauses and, for some, retreat. Over the last decade, Ariel Mutual Funds and The Charles Schwab Corporation have annually commissioned research comparing the saving and investing habits among middle- and upper-income Blacks and Whites. The results consistently show that Blacks save less than Whites of similar income levels and are less comfortable with stock investing, which impedes wealth building across generations and contributes to an impending retirement crisis in the African-American community. This difficult situation will be worsened by the changing state of America's pension system, which will hit middle-class Blacks especially hard because of a disproportionate dependence on traditional defined benefit pensions. In short, middle-class Blacks may not be able to realize a key part of the American dream: a comfortable and secure retirement after a job well done.

To mark the survey's tenth year, Ariel and Schwab are issuing this report on African-American saving and investing. These findings raise several critical questions for a community, an industry and a nation committed to ensuring equal access to the broad benefits of life in the world's wealthiest country. What proactive measures can our industry, government, employers and communities undertake to protect middle- and upper-income Blacks from experiencing a profound decline in their financial well-being in their retirement years? How can we foster a cultural shift toward wealth building that will lead to greater economic opportunities for future generations of African-Americans? And how can we preserve Black economic gains and shrink the wealth gap?

This research suggests that **employers** play a critical role both in educating Blacks about saving and investing and in ensuring equal participation among all employees; that **family and community** can facilitate and reinforce the merits of investing; that **government** — including the education sector — can affect future generations by introducing basic personal finance concepts into every classroom; and that the **financial services industry** can serve as the bridge connecting all of these constituencies.

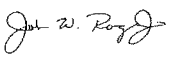
Our hope is this research will spur a national dialogue on the issue of saving and investing, and encourage a collective momentum toward action. If we can elevate the level of saving and investing in one reluctant community, we can make progress in every community, and ultimately reduce poverty and promote opportunity.

Sincerely,



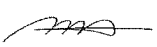
Charles R. Schwab
Founder, Chairman & CEO
The Charles Schwab Corporation

Sincerely,



John W. Rogers, Jr.
Chairman & CEO
Ariel Capital Management, LLC
Ariel Mutual Funds

Sincerely,



Mellody Hobson
President
Ariel Capital Management, LLC
Ariel Mutual Funds

# Introduction

In the last quarter century, the American middle-class has become increasingly familiar with the stock market. The explosive growth of mutual funds, lower-cost brokerages and channels of information about the financial markets, combined with easily accessible employer-based investment opportunities, has made stock investing, once the realm only of the privileged, available to people at every income level. Furthermore, historically stocks have outperformed all other asset classes — including the American home.

But anyone new to investing in the last 20 years — as most Black investors are — would be forgiven for thinking it is a risky proposition. The stock market crash of 1987, the bull market of the 1990s, the dot-com bubble, the terrorist events of 9-11, the radically changing pension plan system and most recently, the crisis in the sub-prime mortgage market have left many investors anxious. A decade of survey research shows that not only stock market volatility, but also social and cultural factors, are among the chief reasons more than four in ten middle-class Blacks forego stock investing entirely or have retreated from the stock market, removing them from one of the great wealth creators of the American economic system.

As the largest Black-owned mutual fund company in the country, Ariel Mutual Funds has long sought to promote saving and investing among African-Americans. Ariel and Charles Schwab joined forces to establish *The Black Investor Survey: Saving and Investing Among Higher Income African-Americans and White Americans*, which has become the definitive source of information on Black investment behavior. Every year since 1998 a random sample of 500 African-Americans and 500 Whites with household incomes of at least $50,000 are surveyed by phone.[1]

In 2007, for the first time, current retirees were also surveyed to determine the specific issues they are facing in their retirement years.[2] Not surprisingly, the results show that retired Blacks have less money saved than retired Whites with similar incomes. Together, the surveys of both retirees and non-retirees paint a picture of Black America at considerable financial risk in their retirement years — a situation that creates a challenge for the entire nation and an opportunity for the financial services industry.

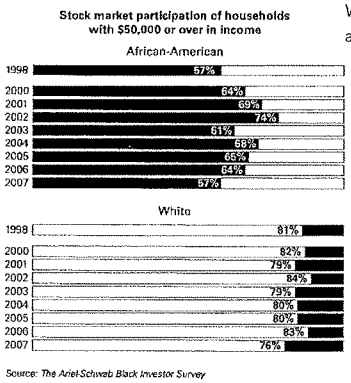
# Survey findings

**Blacks trail Whites in savings and stock market participation**

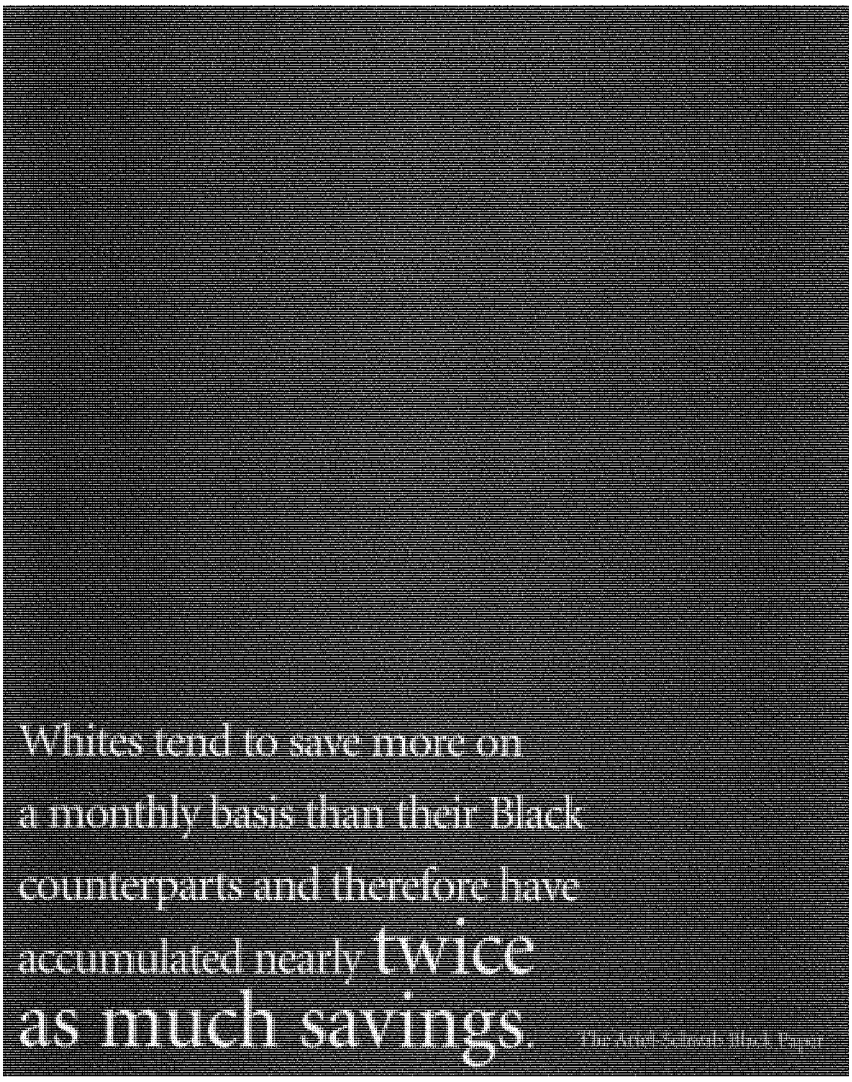
Ten years of survey research indicates that middle-to-upper-income African-Americans remain underinvested in the stock market and are no more likely today to be stock investors than they were a decade ago. Whites, on the other hand, are just as likely to be investors today as when the study began.[3] Given their higher rates of involvement in the stock market, it's no surprise that Whites tend to save more on a monthly basis than their Black counterparts and therefore have accumulated nearly twice as much savings.[4] The savings gap is compounded over time, resulting in Whites having a significantly larger nest egg upon retirement. It is important to note that while Whites have saved considerably more than Blacks, the harsh reality is they, too, are underinvested and ill-prepared for retirement. Nevertheless, the large disparities between Black and White market participation and savings are consistent year over year, even when other demographic factors such as income and education are held constant.

Five years into the survey, the gap between Black and White stock ownership was narrowing just as the dotcom bubble burst and the terrorist attack of September 11, 2001 occurred. The resulting drop in stock prices in time drove many Blacks to move money away from the market. By 2003, the percentage of Black investors had dropped dramatically. One of the first surveys asked whether a downturn in the market would prompt a withdrawal of money, and considerably more Blacks than Whites said yes.[5] Meanwhile, stock market participation among middle- and upper-income Whites has remained remarkably consistent.

Question: "Do you personally, or with a spouse, have any money invested in the stock market right now, either in individual stocks or in a stock mutual fund?"



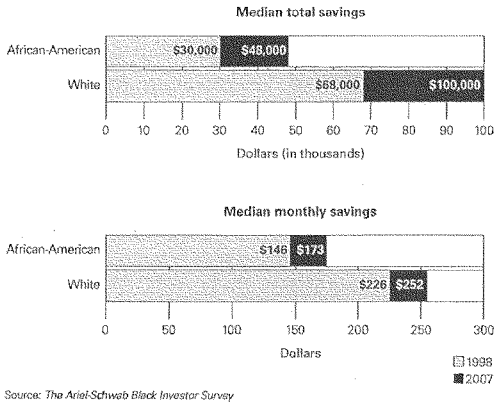

Source: *The Ariel-Schwab Black Investor Survey*


Whites tend to save more on
a monthly basis than their Black
counterparts and therefore have
accumulated nearly twice
as much savings.
The Atlanta Schools Black Paper

Among the retirees surveyed this year, Blacks had less money saved for retirement than Whites even when controlling for factors such as peak income and education. Further straining their financial position is the fact that Blacks consistently say they plan to retire earlier than Whites, and, indeed, the retiree survey shows they did retire two years earlier in age, which means they are tapping retirement funds earlier (at 58, on average).[6]

It is important to note that a larger percentage of middle-class Blacks than Whites work for employers that tend to provide traditional pensions, such as the government. Pension plans and Social Security have traditionally played a much larger role in retirement income for African-Americans than these sources do for Whites. In this context, it is not surprising that most Black retirees surveyed say they are living comfortably despite their lower overall savings.[7]

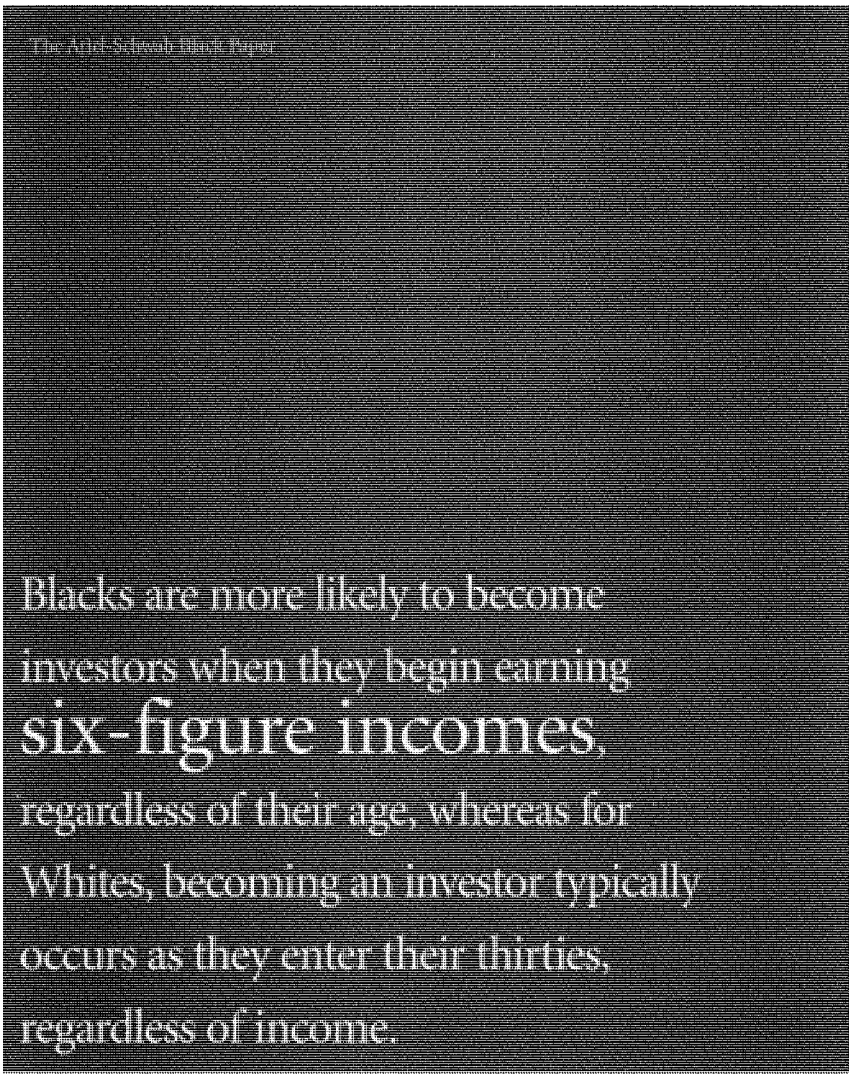
Nevertheless, there is growing awareness that the retirement funding landscape is changing. More than four out of five working Blacks and Whites today say that a defined contribution plan, such as a 401(k), will help fund their retirement; seven years ago fewer than half of working Blacks had that expectation.[8] In fact, half of all working Blacks predict that a plan such as a 401(k) will be their most important source of retirement income. However, in the last seven years there has not been a corresponding narrowing of the gap of African-American saving and investing, suggesting that the changing perceptions among working African-Americans today about how their retirement will be funded have failed to spur changes in actual saving and investing patterns.




Source: *The Ariel-Schwab Black Investor Survey*

Despite general satisfaction, retirees within the first decade of their retirement show an undercurrent of concern: a sizeable minority of both Black and White retirees fear that they will outlive their retirement savings. About half of young retirees worry about medical issues impacting them financially with significant percentages of Blacks and Whites spending more on health care in their retirement than they expected.[8] These anxieties, not surprisingly, are correlated with the size of the nest egg — the more money saved the fewer worries people have in retirement.

So, while Blacks in the last decade have shown interest in the market (at least when it appears to be a safer option) and furthermore have come to expect that the market will be an important source of retirement funding (in the form of defined contribution plans), they nevertheless have been slow to adopt behaviors necessary for ongoing investing success. Why?

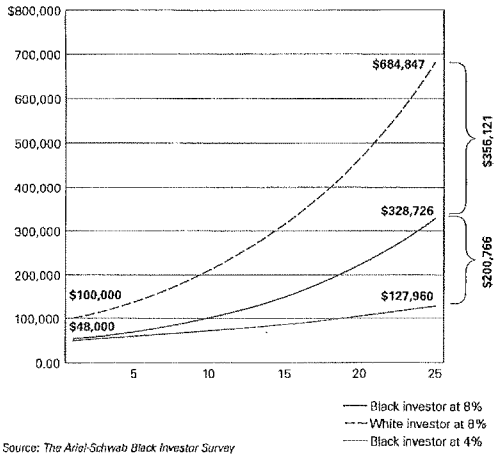

The Ariel-Schwab Black Paper
Blacks are more likely to become
investors when they begin earning
six-figure incomes,
regardless of their age, whereas for
Whites, becoming an investor typically
occurs as they enter their thirties,
regardless of income.

**Attitudes about investing drive behavior**

First of all, the concept of saving for retirement does not resonate in the same way in the Black community as it does among Whites. Year after year, the survey has found that fewer Blacks list "retirement" as their primary reason for saving, with higher percentages of Blacks saving for "college" or an "emergency." This is especially true for Blacks under 35, who are only half as likely as Whites under 35 to be saving for retirement.[10] In fact, all other factors being equal (age, income, etc.), Blacks are 1.5 times less likely to cite retirement as their main savings goal. And because the research shows that retirement as a savings goal is strongly correlated to investing in the market for both Blacks and Whites, it follows that fewer Blacks invest.[11]

Additionally, Blacks are more likely to become investors when they begin earning six-figure incomes, regardless of their age, whereas for Whites, becoming an investor typically occurs as they enter their thirties, regardless of income.[12] This "wage versus age" distinction means that many Blacks miss out on the benefits of compounding by waiting too long to begin.

**Fewer dollars, lower expected returns:**
**Effect of compounding over time**




Source: *The Ariel-Schwab Black Investor Survey*

**Blacks are banking on real estate**

One of the single most consistent findings in the *Ariel-Schwab Black Investor Survey* is that more Blacks than Whites view real estate as a better investment than the stock market. In 2007, only one-third of Blacks consider stocks and mutual funds to be the best investment overall, while nearly half feel real estate is the best investment; for Whites, these proportions are reversed.[13] Except at the very height of the bull market in 2001, real estate has outpolled stocks and mutual funds combined among Blacks, whereas Whites have generally favored stocks and mutual funds over real estate.[14]

Many Blacks think real estate is less risky, believe it can be used to earn rental income and assume it will never go down in value. In fact, nearly half of all working Blacks believe they will rely on rental income in their retirement.[15] Given these perceptions, it is not surprising that Blacks may forego investing in the stock market in favor of purchasing and upgrading real estate investments.

The retiree survey, however, tells a story that many working Blacks might find surprising. The idea that real estate is not just a nest, but also a nest egg is not borne out by real-life experience. Among retirees, far fewer Blacks choose real estate over mutual funds and stocks as the best investment, and fewer than two in ten actually rely on rental income for their retirement.[16]

**Social and cultural issues play a role**

Finally, in addition to behaviors and perceptions around investing that result in the Black–White gap, underlying social and cultural issues are at work, starting with the family. Middle-class Blacks tend to have greater financial burdens related to their families. Blacks are more than 1.5 times more likely to support adult children and aging parents.[17] They are more likely to have extended family living in their homes and are less likely to be married.

But the survey has found that, even when these financial burdens caused by family structure are not present, Blacks still remain less likely to invest. In fact, if one compares a Black person and a White person of the same age, income, gender, family structure and education, the White person is almost twice as likely to be an investor as the Black person — that is, all other significant demographic factors wash away, leaving race as the determinant of likelihood to invest.[18]

Broadly speaking, there is a relative lack of social and cultural attention within the African-American community focused on investment/savings matters. For example, Whites are almost twice as likely to have grown up in a household where they knew their parents were investors, giving Whites the advantage of early exposure. This trend still exists today, with Black parents being considerably less likely than White parents to expose their own children to various banking and investing activities, such as opening a savings account for a child. In 2001, just 56% of Blacks said their child under 18 had a bank savings account, compared to 68% of Whites; only 36% of Blacks had savings bonds for their children, compared to 55% of Whites; and only 21% of Blacks had bought stocks or mutual funds for their children, compared to 31% of Whites.

Less exposure to the stock market, of course, leads to less knowledge about the basics of investing. Common phrases like "bull market" and "bear market" are unclear to almost half of Blacks. Fewer Blacks than Whites know that a stock represents an ownership share of a company.[19] Adding to the general unease with financial facts and terminology is the widely held perception among Blacks that timing the market is more important than discipline in becoming a successful long-term investor — a perception that discourages investing among those who feel they are less than experts on the subject.[20]

**Employers, educators and industry all play a role in empowering Blacks to invest**

Both Blacks and Whites strongly believe that individuals — rather than the government or employers — are most responsible for planning for their retirement.[21] However, Blacks are more likely to believe that the government and corporate America can do more to guide them toward a secure retirement. Among Blacks who invest, employer-sponsored retirement plans have been the most significant factor in driving them toward the stock market investing. Additionally, the role of the employer has grown dramatically over the past decade, with high percentages of both Blacks and Whites saying they get investing information from their employers.[22] The 2007 survey revealed that 55% of Black investors attributed their impetus to begin investing to their 401(k) plan, versus 27% in 1998. Furthermore, among Black retirees 45% began investing through a 401(k) plan.

According to the 2007 retiree survey, fewer Blacks have gone through some of the basic steps of retirement planning, such as calculating the amount of money they need to live comfortably in retirement. But those who had sought professional advice were much more likely to have made this calculation, much more likely to have saved more than $100,000 by the time they retired and much less likely to have retired early.

The great majority of Blacks and Whites believe that financial literacy should be part of the public school curriculum. The 2001 survey showed that 90% of Blacks and 80% of Whites with teenage children agree that the stock market and investing are topics that should be taught in school.

# A call to action

The trends highlighted in a decade of research by Ariel and Schwab coupled with the evolution of the pension system toward defined contribution plans present a critical challenge to the African-American community, employers and policymakers. How can we better communicate the importance of saving and investing — both to ensure a secure retirement and to be able to build wealth across generations — and provide education to those who need it? How can educators, employers and the financial services industry stimulate higher saving rates for people of all incomes? We hope the findings of these last ten years spark a myriad of ideas and answers to these questions, and that organizations and individuals take up the call to address this issue within their spheres of influence. The following are clearly important first steps.

**1. Educate Our Youth**

One of the most effective ways to eliminate the investment gap and savings gap in this country is to address the issues *before* they become a problem. Whether in public school classrooms or through community-based programs, educating America's youth about basic money management including saving and investing should be a top priority. In Schwab's 2007 Teens and Money Survey, only 13% of American teens ages 13 to 18 said they knew what a 401(k) plan is. Even more fundamentally, the survey results showed that only 41% of teens know how to budget their money; only 34% know how to balance a checkbook or check the accuracy of a bank statement; and only about a quarter of them (26%) understand how credit card interest and fees work. While some individual schools have made efforts to teach children the basics, there is no national investment curriculum. Likewise, many schools or organizations do not possess the materials and resources they need to help teach young people how to be educated consumers and investors.

The ideal solution would be required financial education within the school system throughout all 12 years. A mandated financial literacy exam would help assure America's children are equipped with a basic set of financial skills to make smart, informed choices. We encourage the leaders of our educational system to proceed down that path. In the short term, private enterprise can play a significant role. Another recommendation is for companies—specifically within the financial services arena—to partner with cities, school superintendents, and/or youth

organizations to teach children the financial decision-making skills necessary to secure their future. Private enterprise has a critical stake here, since most of today's school-aged children will not grow up and work for an employer who offers a pension (defined benefit plan) and instead will carry the responsibility for building their own financial security largely through defined-contribution workplace retirement plans.

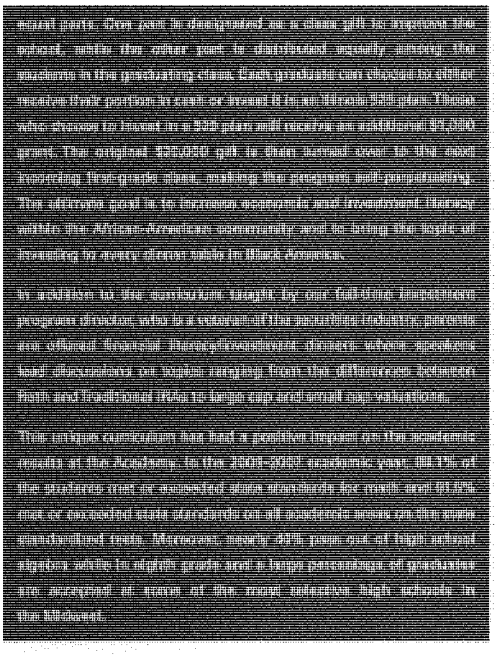
Following are two examples of ways in which companies have had a significant impact on increasing financial literacy.

## Case Study of Ariel Community Academy

In 1991, in partnership with Ariel Capital Management, LLC and the Chicago Public Schools, Ariel Community Academy opened its doors on the south side of Chicago in a predominantly African-American neighborhood. A part of Mayor Richard Daley's Small School initiative, the Academy is a traditional public school with classes from pre-kindergarten through eighth grade. In addition to the mandated Chicago public school curriculum, Ariel introduced the concepts of saving and investing into the classroom. The school is the first elementary school in the country to have hallways named after financial marketplaces like Wall Street and LaSalle Street and a mahogany board room furnished with a life-size mural of a bull and bear, as well as clocks showing Chicago, New York, Tokyo and London time. Additionally, every morning a bell rings and a student announces to everyone in the building that the stock market is open and relays yesterday's closing prices for a point of reference.

Through a partnership with Nuveen Investments, a Chicago-based investment and trust company, the Ariel Mutual Investment Program invests a $50,000 grant in each incoming first-grade class at the Ariel Community Academy. This money follows the students until their graduation.

In the first few years, the money is invested and managed by a group of investment professionals from Ariel and Nuveen. As the students advance through the school's unique investment curriculum, though, they become actively involved in making investment decisions. Ultimately, a Junior Board of Directors made up of sixth-, seventh- and eighth-grade students is responsible for deciding how the $50,000 is to be invested. Upon graduation, all accumulated profits made on the original gift of $50,000 are divided into two



## Case Study of *Money Matters: Make it Count*™

**A Financial Literacy Program**
**Sponsored by Boys & Girls Clubs of America and Charles Schwab Foundation**

Many of the nation's teenagers possess few substantive notions regarding the skills that lead to financial independence and well-being. To address this important social issue, Boys & Girls Clubs of America and Charles Schwab Foundation entered into a national partnership in 2003 and collaborated to create *Money Matters: Make it Count*™. The program aims to build basic money management skills and positively influence a lifetime of good financial habits for teens ages 13 to 18. Through fun, interactive activities and exercises on topics that range from opening a checking account, learning how to budget, managing debt and saving for college, *Money Matters* helps teens learn practical ways to save, spend and make their money grow.

In May 2006, the program rolled out nationwide. Today, it is available to approximately 2,000 Boys & Girls Clubs across the country, reaching a large population of teens who might not normally have access to this type of education — including the large percentage of Club teens who come from disadvantaged circumstances.

In less than three years, nearly 70,000 Boys & Girls Club teens have completed *Money Matters*, and 884 Club locations across the United States have adopted the program. Since 2004, Charles Schwab Foundation has committed a total of $500,000 in college scholarship grants to 84 teens, ages 16 to 18, who have completed the program and demonstrated their newly acquired financial literacy skills.

The program components include:

- A teen Personal Finance Guide, which includes practical tips and activities to help teens learn important money management skills, including investing for college and saving for the future.
- The *Money Matters* website, a password-protected, interactive site that combines tools to help teens learn how to balance a checkbook, make budgeting and investment decisions, and start a business.
- A Facilitator's Guide to assist Club staff and volunteers in engaging

basic financial concepts. The Excellence Guide offers step-by-step lessons and group activities to reinforce newly acquired money management skills.

- Schwab's Employee Volunteer Program, in which Schwab associates are encouraged to volunteer at Clubs and share their financial expertise with Boys & Girls Clubs members and their families.

- The Money Matters Scholarships and Awards programs to recruit and recognize teens who have successfully applied what they have learned. Older teens (16–18) are eligible for $2,000 scholarships from Charles Schwab Foundation, and younger teens (13–15) are eligible to receive awards as MVP players.

Analysis of baseline and follow-up surveys conducted with Boys & Girls Clubs members who completed Money Matters reveals that progress is motivating teens to take positive actions:

- 89% of Club members reported that they had begun to save money (versus 69% in the baseline survey).

- 66% of Club members were in the process of open a savings account (versus 43% in the baseline survey).

- 57% had started to develop a spending plan or budget (versus 35% in the baseline survey).

- 43% had initiated a search for information on financial aid for college (versus 28% in the baseline survey).

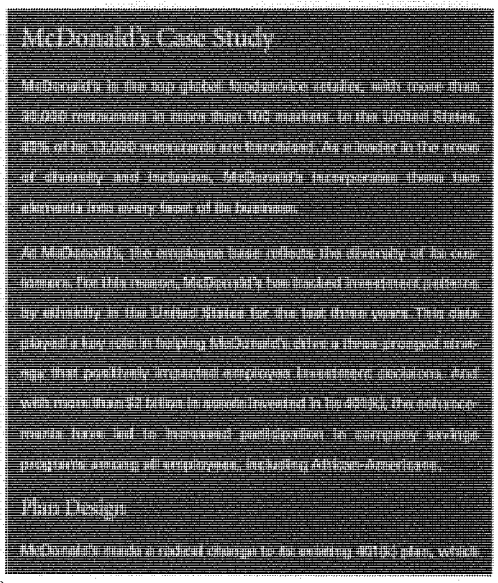
- 31% had begun to open a checking account (versus 23% in the baseline survey).

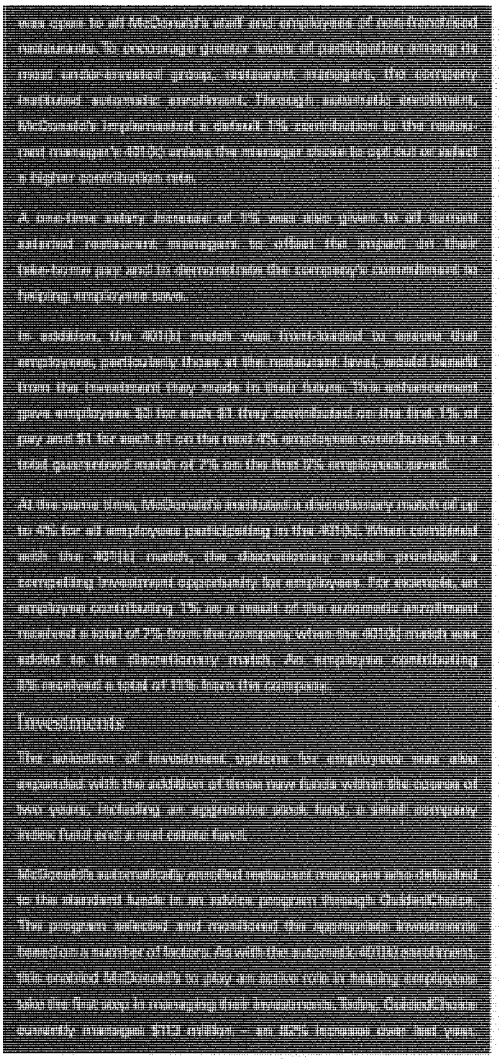
Moreover, Boys & Girls Clubs staff and teens give high ratings to the Money Matters program, reporting that the program has helped them the importance of saving plans, routines and long-term goals, how to handle money responsibly and the importance of making sound financial decisions so they have the tools

**2. Amplify Workplace Education**

Employers today have both a greater opportunity and a greater responsibility to provide employees with access to suitable retirement investment vehicles and to educate them about how to plan for a successful retirement. The Pension Protection Act's sanctioning of automatic enrollment as a tool to help employers increase 401(k) plan participation will help many employees begin to save for retirement who might otherwise have sat on the sidelines.

While many employers have made great strides toward ensuring their plans consist of a well-diversified menu of investment options, too few have focused on employee participation rates by race. We suggest that corporate chief financial officers, treasurers and human resources directors investigate their internal plans and analyze participation by race to determine if differences exist and, if so, take steps to narrow the gap. The few companies that have gone through this exercise have found that the investment gap uncovered by the Ariel-Schwab Black Investor Survey is mirrored within their own 401(k) plans.





McDonald's also added a new easy online financial planning tool to make investment resources more accessible to those who might not be able to take advantage of the services of a financial planner.

## Communications

To ensure employees understood their investment options and how to maximize the benefits available to them, McDonald's employee newsletters and brochures were added with increased frequency. Outreach efforts also began with the various diversity employee groups at McDonald's, including African-American employees. While these efforts are in the initial stages, financial planning information was distributed at a recent national conference held by African-American employee network and additional tactics are underway.

## Results

After only two and a half years, the positive impact of the plan design changes, more investment options and communications enhancements have not only affected African-American employees, but all McDonald's employees. Although the benefits of these changes are most dramatic at the restaurant level, where McDonald's has its most diverse employee population, they have also strengthened staff employee participation.

- Among African-American restaurant managers, the percentage participating nearly doubled, from 40% in 2000 to 80% in 2003.
- Aggregate account balances of African-American restaurant managers increased 47% since 2000 and African-American staff (non-restaurant) employees' account balances increased 34%.
- The percentage dollars of minorities participating in the plan is more than double that of non-minorities. Minorities increased 34%, compared to an 11% increase among other employees.
- At 2003, the percentage of African-American staff employees participating in the plan is close to total participation for all McDonald's employees.

While McDonald's is pleased with the success of these efforts, the company remains committed to further increasing the financial awareness of its employees and providing them with resources to make sound decisions about investing in their future.

Access is only the tip of the iceberg. Employers must give employees the tools they need to choose the appropriate investments. Even employees who are automatically enrolled at 3% in an appropriate target fund need to know the basics of asset allocation and understand that 3% will likely not ensure a secure retirement. Education and advice are crucial and data shows that the right approach can make a difference.

The 2005 survey showed that 49% of Blacks versus 42% of Whites preferred to receive information on their retirement plans through one-on-one mootings or in seminars, and 27% of Blacks versus 16% of Whites prefer using advisors. Additionally, fewer Blacks (28%) than Whites (37%) want information through e-mail. This year's retiree survey also found that, all else being equal, retired Blacks who used a financial advisor or attended seminars were twice as likely as those who didn't to have over $100,000 saved.

Blacks are also more likely to trust people who look like them and share their experience, with three quarters of Blacks surveyed in 2000 agreeing that there are "not enough African-American role models in the financial community." In 1998, the first year of the survey, 58% of Blacks said they would be more likely to have an account with a financial services company with a racially diverse workforce.

America faces an increasing challenge to boost the national savings rate and provide for a more secure retirement for workers with the kind of common-sense approaches described here in the Ariel-Schwab Black Paper. A decade of research conducted by Ariel and Schwab offers a roadmap for moving forward. It now falls to the financial services industry, government, employers and individuals to work together to meet this challenge and to build a brighter future for everyone.

# End notes

[1] The sample, national in scope, is drawn randomly from census exchanges that have a median income of $40,000 or more. In order to bolster the African-American sample, additional interviews are conducted in census exchanges that have a median income of $40,000 or more and that have a population that is at least 25% or above African-American. All respondents are over the age of 18 and have a household income of at least $50,000. Additionally, all identify themselves as the primary or joint decision-maker in the household in terms of investment decisions.

[2] A sample of 300 Black and 300 White retirees were surveyed by phone. All respondents had household incomes of over $50,000 before retirement and had been retired between one and ten years.

[3] In 2007, 57% of Blacks own stocks or stock mutual funds, compared with 76% of Whites. In 1998, the first year of the survey, 57% of Blacks owned stocks or stock mutual funds compared with 81% of Whites. Over the years, the Black figure rose to as high as 74%, while the White figure has consistently hovered between 76% and 84%.

[4] In 2007, the mean total amount of savings and investments is $142,000 for Blacks and $269,000 for Whites. (The corresponding median numbers are $48,000 and $100,000.) For Black retirees, the mean total of savings and investments is $151,000, and for White retirees it is $373,000. (The median savings amount for retired blacks in the survey was $73,000 compared to $210,000 for Whites.)

[5] In 1999, 24% of Blacks versus just 10% of Whites said they would "take money out of the stock market" if there were a major downturn.

[6] In the first year of the survey, Blacks on average said they planned to retire at the age of 58, while Whites on average planned to retire at the age of 61. The 2007 retiree survey showed that in fact Blacks did retire, on average, at 58, while Whites waited until 60.

[7] When retirees were asked if they were living comfortably or having trouble making ends meet, 78% of Blacks and 85% of Whites said they are comfortable.

[8] In 2000, 47% of non-retired Blacks and 62% of non-retired Whites said they expected to rely on an employer-sponsored retirement plan, such as a 401(k), as a source of money in retirement. In 2007, 83% of non-retired Blacks and Whites expect that such a plan will help pay for retirement.

[9] The 2007 retiree survey shows that 25% of Black retirees and 22% of White retirees are worried that they will outlive their retirement savings, and 52% of Black retirees and 51% of White retirees worry that a medical issue could impact them financially. Forty-one percent of Black retirees and 29% of White retirees say they are spending more on health care in their retirement than they had expected to.

[10] In 1998, 37% of Blacks said their most important reason for saving was retirement, versus 58% of Whites. In 2007, the numbers were statistically identical: 40% of Blacks versus 56% of Whites said retirement was the most important reason. In 2000, an analysis of respondents under 35 showed this to be true for younger people as well, with half as many Blacks (21%) as Whites (42%) citing retirement as their most important reason for saving.

[11] In 2007, Blacks who say saving for retirement is their main goal are 2.1 times more likely to be in the market today, all key demographic factors being equal. Whites are 1.7 times more likely to be in the market when saving for retirement is their main goal.

[12] In 2001, we looked at "likelihood to invest" and it jumped dramatically for Blacks when they began earning over $100,000 and skyrocketed when income exceeded $150,000. For Whites, higher income was not the driver to invest, but rather age. Whites over 35 were three times more likely to be investors than Whites under 35, regardless of income, while Blacks of all ages were equally likely to be investors when incomes are held constant.

[13] In 2007, when asked which of the following — stocks, mutual funds, bonds, real estate, whole life insurance — is the "best investment overall," 45% of Blacks chose real estate, compared to 33% for stocks and mutual funds combined. Just 34% of Whites chose real estate, whereas 45% of Whites chose stocks and mutual funds combined.

[14] Whites have favored stock market investments over real estate investments in all but two years of the research — 2003 and 2004. Nevertheless, Blacks have found real estate investments more attractive than Whites have in every year of the study.

[15] In 1999, 32% of those Blacks who said real estate was the best investment cited "less risky" as the reason; 25% cited "never go down in value"; and 21% said you can "earn rental income." In 2007, 45% of working Blacks and 32% of working Whites said rental income would help fund their retirement. In fact, just 16% of retired Blacks and 13% of retired Whites have any real estate income in their retirement.

[16] The 2007 retiree survey shows that just 32% of retired Blacks say that real estate is the best investment overall, versus 29% of retired Whites. Additionally, only 16% of Black retirees and 13% of White retirees identify rental income as a source of retirement income.

[17] In 2000, 32% of Blacks surveyed said they expect to support adult children versus 20% of Whites; that same year, 45% of Blacks said they expect to support aging parents, versus 29% of Whites.

[18] In 2007, Blacks are 1.88 times less likely to invest than Whites, all else being equal. Variables included as controls are income, assets, age, gender, marital status, adults other than spouse in household, education, employment status, government vs. business employment, and self-employment.

[19] In 2004, just 39% of Blacks could correctly link a "bull" market with a rising stock market. Only 56% of Blacks (and 65% of Whites) knew that when you own a stock, you own an ownership share of a company. (Other choices on the multiple-choice question were a loan to a company, a bet on a company, and "I don't know.")

[20] The 2004 survey showed that 30% of Blacks (vs. 15% of Whites) think market timing is more critical to investor success than patience or discipline. Those Blacks believing in market timing are 2.5 times less likely to be investors than those who believe in patience or discipline.

[21] In 2006, virtually identical percentages of Blacks and Whites (87% and 89%, respectively) said that individuals should be "very responsible" for retirement planning.

[22] In 1998, just 27% of Black and White investors said that they started investing as a result of having a 401(k) plan, with the rest saying they started investing on their own, with the help of a broker or financial advisor, and with the help of a friend.

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STATEMENT FOR THE RECORD
OF
THE HOUSE FINANCIAL SERVICES COMMITTEE
HEARING ON
FINANCIAL LITERACY AND EDUCATION:
THE EFFECTIVENESS OF GOVERNMENTAL AND PRIVATE SECTOR INITIATIVES
APRIL 15, 2008

Mr. Chairman, on behalf of the Credit Union National Association (CUNA), which represents approximately 90 percent of the nation's 8,400 state and federally chartered credit unions and approximately 90 million members, we applaud the attention that you and other members of the Financial Services Committee have given to promoting financial literacy. And, we appreciate the opportunity to provide an outline of the programs and initiatives that CUNA and our member credit unions are involved in to promote financial education to both youth and adults.

CUNA supports H. Res. 1079, a resolution supporting the goals and ideals of Financial Literacy Month 2008. This resolution has been introduced by Representatives Ruben Hinojosa and Judy Biggert. We applaud their leadership on this issue.

Credit unions have traditionally made financial education a part of their mission, providing financial information and training to members on a one-to-one basis. Many of our member credit unions actively sponsor community and school-based educational programs and seminars, providing individuals with resources such as: how to maintain a checking account; how and what to look for when purchasing family transportation; how to complete a mortgage loan application; what is involved when applying to finance or repair a home. Many credit unions are actively working in schools to teach personal finance skills to children and teenagers.

In addition to the financial literacy initiatives of individual credit unions, the credit union system develops and organizes several financial literacy programs through CUNA and the National Credit Union Foundation. Credit unions are also affiliated and partner with several external organizations, including the National Endowment for Financial Education (NEFE), the Cooperative Extension Program, Junior Achievement, and State Jump$tart Coalitions.

**Credit Union National Association Efforts**
CUNA has sponsored Financial Literacy Summits, events that that continue to bring together representatives from credit unions and partner organizations to discuss financial literacy challenges and set an educational agenda for the credit union movement. In January 2007, CUNA released its National Financial Literacy Summit report which highlighted the presentations of the September 2006 Summit and provided recommendations for the financial services system which include:

- Committing to educating the undeserved;
- Making a long-term commitment to financial education as part of the educational curricula in your community;
- Supporting making personal financial education a high school graduation requirement;
- Measuring the effectiveness of these efforts.

CUNA has developed several on-line financial literacy programs which reached a combined total of more than five million consumers in 2007. The *Home & Family Finance Resource Center* is an online personal finance magazine for adults. The site includes the *Financial Fitness Challenge* – an online, monthly interactive program consisting of steps for increasing members' financial confidence and security. *Googolplex: CU Guide for Student Moneymakers* is a three-in-one online personal finance magazine for children and teenagers. *MoneyMix: Launch Your Life* is an online resources and financial information for 18-to-30s. *Guides to Independence* is an online, interactive personal finance tutorials for teenagers. *Plan It: Retire-ready Toolkit* is an interactive Web site offering pre-retirement planning information and resources.

CUNA has been a strong supporter of a number of other Congressional efforts to recognize and promote financial literacy, including the organization of the U.S. Financial Literacy Commission as required under Title V of the Fair and Accurate Credit Transaction Act. National Credit Union Administration Board Chairman JoAnn Johnson is a member of the Commission. In May 2006, CUNA President and CEO Dan Mica became the only credit union trade organization representative to address the commission, briefing members on the outreach efforts of credit unions as well as CUNA. We also appreciate Representative Biggert's comments at the March 2005 Commission meeting commending CUNA's partnership with the National Endowment for Financial Education and credit unions' efforts to help improve financial literacy in the Ukraine.

**National Credit Union Youth Week**
Credit unions recognize Financial Literacy Month by designating the week of April 20-26 as National Credit Union Youth Week. Credit unions participating in the National Youth Savings Challenge motivate children, teenagers, and their parents to become more-active users of credit union services. Over past several years, this program has seen a steady increase in participation and in savings. In 2007, 393 credit unions participated and 71,844 youth made deposits (including 9,067 new youth accounts). This effort resulted in $10,133,355 total youth savings deposits – about $140 per youth.

**Cooperation with National Endowment for Financial Education**
Credit unions across the nation have directly assisted the delivery of the National Endowment for Financial Education's (NEFE) *High School Financial Planning Program* materials to more than 1,200 schools and 500,000 students nationwide (about 10% of the total) during the course of the CUNA-NEFE partnership, which began in 2000. NEFE released the first edition of the High School Financial Planning Program in 1984. Since then, it has distributed nearly 6 million student guides—more than 4 million since entering the partnership with CUNA in 2000. Please see the chart below for more detailed

information on distribution numbers since NEFE's partnership with America's credit unions:

| School year | Credit union assisted schools | Credit union assisted students | Total participating schools | Total participating students |
|---|---|---|---|---|
| 2000-01 | 414 | 32,453 | 4,330 | 345,899 |
| 2001-02 | 765 | 75,467 | 6,032 | 475,926 |
| 2002-03 | 899 | 76,568 | 6,381 | 491,925 |
| 2003-04 | 1,221 | 78,104 | 7,044 | 566,856 |
| 2004-05 | 1,238 | 85,440 | 7,385 | 647,013 |
| 2005-06 | 820 | 66,940 | 5,950 | 534,810 |
| 2006-07 | 828 | 73,190 | 7,852 | 606,746 |
| 2007-08 (9/30/07) | 231 | 29,668 | 6,305 | 387,969 |
| **Total** | * | **517,830**** | | **4,057,144** |

* School numbers not totaled because of duplication from year to year.
** Student figures reflect workbooks shipped.
Credit union-Coopertive Extension joint projects are responsible for about 10% of CU-assisted student participation.

**BizKid$ Television Series**

The *BizKid$* television series promotes financial education for middle and high school students. The 26-episode series reaches more than 90 million American households -- including more than 230 million people over the age of two -- through 301 PBS stations serving 48 states. *BizKid$* is airing in 20 of the nation's top 25 public television markets, including Los Angeles, New York City, and Chicago. *BizKid$* is a joint project of the Washington Credit Union Foundation, the Public Broadcasting Service, and Junior Achievement Worldwide, funded by the National Credit Union Foundation, several state credit union foundations and a coalition of nearly 200 credit unions, service providers, other nonprofits and individuals.

Each episode of *BizKid$* comes with teaching materials developed by Junior Achievement to be used in classrooms and homes. Credit union staff and volunteers are working with Junior Achievement to teach *BizKid$'* financial literacy lessons to as many as 4 million students in 178,000 classrooms.

**Thrive By Five™: Teaching Your Preschooler about Spending and Saving**

The *Thrive By Five* program is set of eight free activities, available in English and Spanish, that parents can share with their preschool-age children at home to instill simple money concepts and values. Developed in cooperation with the Cooperative Extension System and funded by the National Credit Union Foundation and the Ohio and Texas credit union foundations, roughly 122,000 copies of the eight parent activities in English and 11,000 in Spanish have been downloaded since the program's launch in 2005.

**Desjardins Youth Financial Education Award**
To recognize exemplary credit union and league efforts to improve young people's personal finance knowledge and skill, CUNA administers the Desjardins Youth Financial Education Award and a separate Desjardins Youth Financial Education State Lawmaker Award. 2007 Desjardins Youth Financial Education Award winners include:

*Credit Union Organization Winners*—Denver (Colo.) Community Credit Union; Education First Credit Union (Southgate, Mich.); Kansas State University Federal Credit Union (Manhattan, Kan.); Langley Federal Credit Union, (Newport News, Va.); Maine Credit Union League; Virginia Beach Schools Federal Credit Union & Beach Municipal Federal Credit Union Partnership (Virginia Beach, Va.); Virginia Credit Union League.

*Credit Union Organization Honorable Mentions*—A+ Federal Credit Union (Austin, Texas); Cal Poly Federal Credit Union (Pomona, Calif.); LA DOTD Federal Credit Union (Denham Springs, La.); Loudoun Credit Union (Leesburg, Va.); Rogue Federal Credit Union (Medford, Ore.); St. Vrain Valley Credit Union (Longmont, Colo.).

*State Lawmaker award*—California Assemblymember Ted W. Lieu (53rd Dist.)

**National Youth Involvement Board**
In 1972, CUNA's member credit unions created the National Youth Involvement Board (NYIB) in an effort to gain grassroots input from individuals working in credit unions or CUNA's league affiliates to create a national system for the dissemination of information and resources regarding youth participation in the credit union movement. Since its inception, NYIB has worked with its participating credit unions to better prepare them to serve the projected 90 million-strong youth market. NYIB provides credit unions access to proven tools, techniques, and resources to learn the latest advancements in youth marketing, innovative ideas for educating youth about money, and a built-in network of peers with diverse experiences and valuable "best-practices."

**In-School Branches**
The credit union movement extends financial literacy to youth through in-school and youth center branches across the nation. As of March 31st, 2008 CUNA's online directory of in-school and youth center branches shows that 181 credit unions in 32 states and the District of Columbia operate these unique branches. All reported in-school and youth center branches are, to some degree, student run. Most offer basic savings accounts and limited withdrawals, and require a visit to a full-service office for more-sophisticated services.

Many credit unions tie their in-school branches to personal finance instruction in the classroom. Some use in-school branch teller positions to recruit students for internships and have even hired student tellers after graduation.

**Personal Finance Camps**
Credit unions provide several opportunities for youth that take advantage of peer influences to make learning about personal finance and credit uniqueness more memorable and long-

lasting. Examples of bringing teenagers together to explore credit union history, traditions, and cooperative solutions to socio-economic problems include:

- *Money Talks-Are You Listening?*—a one half day session on credit union uniqueness, operations, and career opportunities involving collaboration among CP FCU (Jackson, Mich.), Option 1 CU (Grand Rapids, Mich.) and Michigan Cooperative Extension 4-H.
- *Camp SmartMoney*—a five-day interactive financial literacy day camp for teenagers, aged 14-to-18, hosted by E FCU (Baton Rouge, La.).

**Credit Union Staff Training Programs**

State credit union leagues are involved in programs that help prepare credit union employees to assist members with personal finance challenges, such as the annual *Financial Literacy Boot Camp* run by the Virginia Credit Union League.

**Conclusion**

The examples identified in this statement are not intended to be completely inclusive of all of the effort and resources credit unions dedicate to financial literacy and education. Because of the member-owned, not-for-profit, cooperative structure of credit unions, having members who are financially literate is in the best interest of each credit union, and providing access to financial education is among the core missions of the credit union system. For credit unions, financial literacy is not just something we do in April – financial education is a service we provide our members each day of the year.

Mr. Chairman, we appreciate the opportunity to comment on the importance of financial literacy and financial education.

**Testimony of the Financial Industry Regulatory Authority**
**Submitted to the Committee on Financial Services**
**United States House of Representatives**

**April 15, 2008**

Mr. Chairman and Members of the Committee, the Financial Industry Regulatory Authority (FINRA) commends you for having today's hearing on financial literacy initiatives and appreciates the opportunity to submit this statement for the record. FINRA and the FINRA Investor Education Foundation are committed to expanding the knowledge and confidence of all Americans wishing to build a more secure financial future through saving and investing.

**FINRA and the FINRA Investor Education Foundation**

FINRA, the Financial Industry Regulatory Authority, is the largest non-governmental regulator for all securities firms doing business in the United States. Created in 2007 through the consolidation of FINRA and NYSE Member Regulation, FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA touches virtually every aspect of the securities business—from registering and educating all industry participants to examining securities firms; writing rules; enforcing those rules and the federal securities laws; informing and educating the investing public; providing trade reporting and other industry utilities, and administering the largest dispute resolution forum for investors and registered firms. All told, FINRA oversees nearly 5,000 brokerage firms, about 172,000 branch offices and more than 676,000 registered securities representatives.

FINRA believes investor protection begins with education. Using the Internet, the media and public forums, we help investors build their financial knowledge and provide them with essential tools to better understand the markets and basic principles of saving and investing. We issue educational materials to alert investors to potential problems and provide "plain English" explanations of products and processes. We have developed a variety of interactive tools for investors to use in making financial decisions. We conduct public education events to reach out to investors.

In addition to the investor education activities of FINRA itself, the FINRA Investor Education Foundation (FINRA Foundation) is the largest foundation in the U.S. dedicated to investor education. Its mission is to provide investors with high-quality, easily accessible information and tools to better understand the markets and the basic principles of saving and investing. To further this mission, the Foundation awards grants to fund educational programs and research aimed at segments of the investing public who could benefit from additional resources. Since the FINRA Foundation's inception in December 2003, it has approved more than $28 million in financial education and investor protection initiatives through a combination of grants and targeted projects. Many of those projects target underserved segments of the population, including a particular focus on senior investors and military personnel and their families so that they are able to avoid fraudulent and inappropriate products and sales pitches and manage their money with confidence.

**Senior Outreach**

As mentioned, over the last year-plus, FINRA has been extremely active in providing senior citizens with information about investment fraud. This outreach campaign is informed by research that examines why some older investors are more susceptible to investment fraud than others. A 2006 study released in cooperation with WISE Senior Services and the AARP Foundation exposed the various persuasion tactics criminals use to exploit seniors and offers strategies to help them avoid becoming victims. The report included some surprising conclusions; for example, financial fraud victims tend to be more optimistic, less likely to use financial professionals and

more financially literate than non-victims. The researchers also found that most investment fraud goes unreported, in part because victims are embarrassed about having fallen prey to it.

In August 2007, the FINRA Foundation conducted an investment fraud risk survey of investors aged 55–64. The survey was intended to benchmark the behavioral norms of the target audience with regard to risk and openness to investment pitches. The results, released in September 2007, gave greater insight into the world of investment fraud targeting seniors:

- As many as 7 out of 10 older investors do not check the registration status of their financial professionals.
- Nearly half (46 percent) say they are more likely to listen to a professional who claims a specific accreditation to advise them on financial issues.
- Three times as many known investment fraud victims (21 percent) have attended a free lunch investment seminar compared to a national sample of investors aged 55–64 (7 percent).

To address these issues, the FINRA Foundation is developing an *Investor Protection Campaign for Older Americans*. The effort will attempt to educate older investors about their vulnerability to investment scams and arm them with techniques to recognize and fend off persuasion techniques that are present in virtually every financial scam. The project will include a public awareness campaign conducted through newspapers, television, radio, direct mail and investor forums, as well as in-person training sessions with small groups of investors. The Foundation will launch pilot programs in Washington state and Florida in the spring of 2008.

The FINRA Foundation has also developed a Web site aimed specifically at seniors, *www.SaveAndInvest.org/55plus*, which contains an array of financial education material from FINRA and other organizations with expertise in fighting fraud against older investors.

**Retirement Savings Initiatives**

To help investors of all ages with retirement savings, we have developed an online 401(k) Learning Center, which is available on our Web site at *www.finra.org/investorinformation*. The center walks visitors through everything from the enrollment process, to the role of risk and reward when making allocation decisions, to issues of portability and the risks posed by cashing out of a 401(k) plan before retirement.

In addition, we have teamed with AARP and the Retirement Security Project to establish "Retirement Made Simpler," an effort to increase participation rates among employees whose companies offer 401(k) plans. A recent brief issued by the Employee Benefit Research Institute (EBRI) notes that almost one-third of recently hired employees who are eligible to participate in their company's defined contribution plan do not participate, and participation rates for employees earning less than $20,000 a year is even lower. A number of academic studies have found that changing the default option to require workers to opt out of, rather than opt into participation in 401(k) plans raises participation rates to more than 90 percent. The goal of the Retirement Made Simpler collaboration is to encourage employers to adopt automatic enrollment and other so-called "automatic" 401(k) features options, in whole or in part.

As investors begin planning for retirement, they can be recruited for so-called "early retirement" seminars. Some of these seminars include misleading statements about investment returns, suggest risky withdrawal strategies or lead to outright fraud—and the loss of some or all of an investor's retirement savings. FINRA recently fined two firms at total of $5.5 million and ordered them to pay $26 million in restitution to customers in connection with early retirement schemes targeting employees of two major corporations.

This week, FINRA is launching a campaign to educate human resource professionals about early retirement seminars. Through the campaign, FINRA will distribute educational materials that offer

tips on how to evaluate the financial professionals involved in early retirement seminars. In addition, FINRA has created guidance for employees that alerts them to the pitfalls of early retirement schemes.

**Military Outreach**

In 2005, as the result of a settlement with a broker-dealer that targeted members of the armed forces with misleading and improper sales tactics, approximately $6.8 million was transferred to the FINRA Investor Education Foundation for the implementation of comprehensive financial education programs for military personnel and their families.

Since its launch in February 2006, the FINRA Foundation's *Military Financial Education Program* has conducted educational seminars at more than 35 military installations around the world, reaching more than 12,000 servicemembers and families. In addition, *www.SaveAndInvest.org/Military*—an online resource center that provides a centralized, trusted source for unbiased information on saving and investing—averages more than 42,000 visits every month.

Last fall, the program made BrightScore™, an online credit management tool, available free of charge to active duty military personnel and their spouses. To date, more than 25,000 military families have used BrightScore to understand and improve their credit scores. A detailed demonstration of the tool is available online via *www.SaveAndInvest.org/Military*.

Together with the Association for Financial Counseling and Planning Education and the National Military Family Association (NMFA), the FINRA Foundation sponsors the unique and highly competitive Military Spouse Fellowship Program to help military spouses earn the Accredited Financial Counselor credential. Since 2006, more than 4,700 spouses have applied for the program; 200 applicants are selected each year.

The *SaveAndInvest.org* program has also partnered with NMFA and the National Endowment for Financial Education to produce and distribute *Military Families: Money and Mobility*, a booklet that provides comprehensive information and checklists for military families preparing for deployment and duty-station changes. To date, the partner organizations have distributed more than 500,000 copies of the publication.

To assist warriors in transition with applying for benefits—and how to manage that money wisely—the FINRA Foundation has published an informational brochure, "How to Save and Invest Your Disability Benefits: A Guide for Warriors in Transition." In addition, the Foundation has delivered focused financial education forums at military medical facilities, including the Walter Reed and Dwight David Eisenhower Army Medical Centers, the National Naval Medical Center and the Veterans Administration Hospital (Active Duty Rehabilitation Unit) in Augusta, Georgia, as well as through the Army's Heal, Help and Hire (H-3) Program.

**Tools for Investors**

Beyond seniors and the military are the rest of America's investors—an overwhelming number of whom realize they need to be better informed about investing. To help educate and inform investors in general, FINRA has responded with a wide variety of resources and tools, which are available free of charge. In particular, a large segment of our Web site, *www.finra.org*, is devoted to providing useful information to all types of investors—those starting out, saving for a home, saving for a college education or contemplating or enjoying retirement.

- **FINRA BrokerCheck:** Before an investor does business with an investment professional, he or she should know the background of that broker or firm. FINRA's BrokerCheck Program gives investors convenient access to this information. Through this valuable resource, available at *brokercheck.finra.org* or by calling (800) 289-9999, investors can

learn about the disciplinary history, professional background, business practices and conduct of brokerage firms and brokers with whom they invest. FINRA obtains this information from brokers, FINRA member firms, the SEC and state regulators as part of the securities industry's registration and licensing process.

- **Professional Designation Database**: The regulatory landscape can be confusing to investors: Differing rules govern their relationships with broker-dealers, insurance professionals and registered investment advisors. Further complicating the situation has been the recent proliferation of investment professional certifications, which can be used to strengthen a financial professional's credentials or simply to enhance his or her *apparent* credibility. FINRA's Professional Designation Database, which is accessible through *www.finra.org/investorinformation*, is an online tool that investors can use to view the list of professional designations, better understand what education and experience requirements are necessary for a designation—and ensure that a professional designation is more than just a string of letters.

- **Mutual Fund Expense Analyzer**: Many investors do not realize that the fees and expenses charged by mutual funds can make a big difference in the performance of their investment. The FINRA Mutual Fund Expense Analyzer (*www.finra.org/fundanalyzer*) contains expense data on virtually every mutual fund and exchange-traded fund. This allows investors to analyze the impact of fees and expenses on fund performance by showing how those fees add up over time. Investors can research one fund at a time, or can compare the costs of as many as three funds or classes of a single fund at a time. In addition, the tool enables users to see the impact of time on their investment *and* on expenses, and how those expenses can affect an investment, particularly over the long term.

- **Bond Learning Center**: The online FINRA Bond Learning Center, available via *www.finra.org/investorinformation*, covers all categories of bonds—savings bonds, municipals, treasuries and agency bonds—and bond funds. In addition to offering a risk report card for each bond category, the Bond Learning Center walks investors through the process of buying and selling different types of bonds. The center also provides some strategies for bond investing, such as "laddering," which involves spreading money among several different bonds with increasingly longer maturities (*e.g.*, a bond that matures in two years, one in four years and one in six years) in order to minimize certain types of risk. FINRA strives to provide a balance of basic information and more advanced concepts, and lets investors decide which is more appropriate for them.

- **College Savings Center**: Nearly every state offers a 529 college savings plan, but the tax implications, investment choices, fees and other features vary from state to state. Investors can use the information and tools available at the FINRA College Savings Center (*www.finra.org/529analyzer*) to make the right choice for themselves. The College Savings Center includes information about 529 plans (prepaid tuition and college savings plans) and other options, including savings bonds, Coverdell Education Savings Accounts and custodial accounts. In addition, the 529 Expense Analyzer lets users compare and analyze the fees and expenses associated with 529 plans.

**Conclusion**

Again, FINRA and the FINRA Investor Education Foundation wish to express their appreciation for the opportunity to submit testimony on these important topics and for your work on this issue.

NATIONAL ASSOCIATION OF REALTORS®

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April 15, 2008

The Honorable Barney Frank
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Frank:

On behalf of the 1.3 million members of the National Association of REALTORS®, thank you for holding this hearing on "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives." The National Association of REALTORS® knows all too well the importance and benefits of financial literacy programs and initiatives. Financial literacy programs are opening the door of economic opportunity for millions of Americans and providing them the tools to purchase a home. Frankly, financial literacy and education is the first step to economic wealth, financial independence and avoiding future costly financial decisions.

Created in 2002, NAR's Housing Opportunity Program helps REALTORS® and REALTORS® associations identify, develop, and advocate for programs, products, and resources that expand housing availability and ensure an adequate supply of housing opportunities in both the rental and homeownership market.

Today, many state and local REALTORS® associations have developed and sponsor financial literacy programs. For example:

- In 2004, the number one legislative priority of the Mississippi Association of REALTORS® included a bill requiring Mississippi secondary schools to include financial literacy education as part of their curricula. Thanks in part to the REALTORS® support, this bill became law.

- Both The California Association of REALTORS® and The Arizona Association of REALTORS® have sponsored the HomeWords program for a number of years. HomeWords programs educate high school students on financial literacy and the value of homeownership. Through this program, thousands of high school students have been had the opportunity to learn important financial lessons.

- The Illinois Association of REALTORS® sponsors www.creditpower.org. This website (available in English or Spanish) helps children and young adults practice making good financial decisions. The site uses animated characters and real-life scenarios to help kids understand the financial implications of decisions they may make.

The National Association of REALTORS® has also worked to foster financial literacy among consumers. Over the past several years, NAR has partnered with the Center for Responsible Lending,

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics.

EQUAL HOUSING OPPORTUNITY

NeighborWorks® America, and the Federal Housing Administration (FHA) to develop a series of consumer brochures entitled "Understanding Today's Mortgages." This series of publications continues to grow, and currently includes:

- **How to Avoid Predatory Lending - Published in 2005, this brochure is designed to** help consumer learn the warning signs of predatory loans and how to shop for a fair and affordable mortgage.

- **Specialty (Nontraditional) Mortgages: What are the Risks and Advantages? – Also published in 2005, this brochure helps** prospective buyers make decisions on the kind of home financing that is best for their circumstances. The risks and advantages of interest-only, negative amortization, payment option ARM, and 40-year mortgages are each discussed.

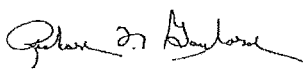
- **Traditional Mortgages: Understanding Your Options** - This brochure explains traditional fixed-rate mortgages and adjustable-rate mortgages (ARMs) which continue to be excellent options for most consumers.

- **Learn About FHA Mortgages** - This brochure outlines recent changes to FHA mortgage insurance program, how to qualify for an FHA mortgage, and other resources available from FHA, HUD, and NAR.

- **How to Avoid Foreclosures and Keep Your Home – Our newest addition, this** brochure will help consumers understand their options and give tips on how to avoid losing your home — regardless of what kind of mortgage you have.

It is often said that educated consumers are the best customers. This could not be more true when it comes to homeownership and housing opportunity. The National Association of REALTORS® thanks you for holding this hearing and stands ready to work with you on financial literacy initiatives.

Sincerely,



Richard F. Gaylord, CIPS, CRB, CRS, GRI
2008 President, National Association of REALTORS®

# SURVEY OF THE STATES

## Economic and Personal Finance Education In Our Nation's Schools in 2007

## A REPORT CARD

National Council on Economic Education

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Funding for this survey was provided by State Farm®




National Council on Economic Education

**Survey of the States**
**Economics and Personal Finance Education in Our Nation's Schools in 2007**
**A Report Card**

**Summary of Findings**

Progress continues to be made in the teaching of economics and personal finance in our nation's schools. However, much more work still needs to take place in terms of placing a greater emphasis on economics and personal finance in the K-12 curriculum; requiring separate, stand-alone courses in these subjects as part of high school graduation requirements; and testing student knowledge levels.

**Economics**, traditionally part of the core Social Studies curriculum, is now included, to at least some extent, in the educational standards of all states.

41 states (up from 38 in 2004 and 28 in 1998), now require these standards to be implemented.

17 states require students to take an Economics course as a high school graduation requirement (up from 14 in 2004 and 13 in 1998).

However, only 22 states require the testing of student knowledge in Economics, *three fewer* than in 2004.

**Personal Finance**, a newer subject in comparison with Economics, is now included, to at least some extent, in the educational standards of 40 states (up from 34 in 2004 and 21 in 1998).

28 states (up from 20 in 2004 and 14 in 1998), now require these standards to be implemented.

Still, however, only 7 states require students to take a Personal Finance course as a high school graduation requirement (up from 6 in 2004 and 1 in 1998), and only 9 states require the testing of student knowledge in Personal Finance (up from 8 states in 2004 and 1 in 1998).

**Entrepreneurship**, included for the first time in this Survey, is much less integrated into the curriculum in the states. Preliminary data show that just over a third of the states include the subject of Entrepreneurship in their K-12 educational standards, and only a handful require Entrepreneurship to be included *as a component* of a high school course (usually Economics), required for graduation.




National Council on Economic Education

## 2007 SURVEY OF THE STATES

### Table I: Economics

| Topics | 1998 Survey Findings | 2000 Survey Findings | 2002 Survey Findings | 2004 Survey Findings | 2007 Survey Findings |
|---|---|---|---|---|---|
| Standards | More than 3 out of 4 states (76%) include economics in their standards (38 states.) | 48 states plus the District of Columbia include economics in their standards. | 48 states, plus the District of Columbia, include economics in their standards. | 49 states, plus the District of Columbia, include economics in their standards | 49 states, plus the District of Columbia, include economics in their standards |
| Standards required to be implemented | 28 states (74% of those with standards) require implementation of economics standards. | 36 states (75% of those with standards) require implementation of economics standards. | 33 states (67% of those with standards) require implementation of economics standards. | 38 states (78% of those with standards) require implementation of economics standards. | 41 states (84% of those with standards) require implementation of economics standards. |
| Course(s) required to be offered | 16 states (32%) require an economics course to be offered. | 16 states (32%) require an economics course to be offered. | 17 states (34%) require an economics course to be offered. | 16 states (32%) require an economics course to be offered. | 17 states (35%) require an economics course to be offered. |
| Course(s) with required enrollment | 13 states (25%) require students to take an economics course. | 13 states (25%) require students to take an economics course. | 14 states (28%) require students to take an economics course. | 14 states (28%) require students to take an economics course. | 17 states (35%) require students to take an economics course. |
| Student testing required | 25 states require testing of economics. | 22 states require testing of economics, with 9 more states having tests planned within the next 4 years. | 27 states require testing of economics, with 4 more states developing tests as of 12/31/02. | 25 states require testing of economics. | 22 states require testing of economics. |

## Economics

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Alabama | Content Standards, K-12 | Yes | Principles of Economics (HS) | Principles of Economics (HS) | No |
| Alaska | Content Standards, K-12 | No | None | None | No |
| Arizona | Content Standards, K-12 | Yes | None | None | No |
| Arkansas | Content Standards/Curriculum Frameworks, K-12 | Yes | None | None | No |
| California | Content Standards, K-12 | Yes | Economics (HS) | Economics (HS) | No |
| Colorado | Content Standards, K-12 | Yes | None | None | No |
| Connecticut | Content Standards, K-12 | No | None | None | Yes |
| Delaware | Content Standards, K-12 | Yes | None | None | Yes |
| Florida | Content Standards (K-12) / Student Performance Standards, (HS) | Yes | Economics (HS) | Economics (HS) | Yes |
| Georgia | Georgia Performance Standards/Content Standards, K-12 | Yes | Economics/Business /Free Enterprise (HS) | Economics/Business/Free Enterprise (HS) | Yes |
| Hawaii | Content Standards, K-12 | Yes | None | None | No |
| Idaho | Content Standards, K-12 | Yes | Economics (HS) | Economics (HS) | Yes |
| Illinois | Content Standards, K-12 | Yes | None | None | No |
| Indiana | Content Standards / Proficiencies, K-12 | Yes | Economics (HS) | Economics (HS) | No[1] |
| Iowa | None[1] | N/A | N/A | N/A | N/A |

[1] The education program requirements in the Iowa Code require Social Studies to be taught in grades 1-12 and further identify Economics as one of the disciplines within Social Studies.

## Economics

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Kansas | Content Standards / Competencies / Guidelines, K-12 | Yes | None | None | Yes |
| Kentucky | Content Standards/Core Content, K-12 | Yes | None | None | Yes |
| Louisiana | Content Standards / Grade Level Expectations / Guidelines, K-12 | Yes | Free Enterprise (HS) | Free Enterprise (HS) | Yes |
| Maine | Guidelines, K-12 | Yes | None | None | No |
| Maryland | Content Standards, K-12 | Yes | None[2] | None[2] | Yes |
| Massachusetts | Learning Standards, Skills and Concepts, K-12 | No | None | None | Yes |
| Michigan | Content Standards/Benchmarks, K-12 | Yes | Economics[3] (HS) | Economics[3] (HS) | Yes |
| Minnesota | Content Standards, K-12 | Yes | None | None | No |
| Mississippi | Content Standards/Curriculum Frameworks, K-12 | Yes | Economics[4] (HS) | Economics[4] (HS) | No |
| Missouri | Content Standards/Guidelines / Competencies, K-12 | Yes | None | None | No |
| Montana | Content Standards, K-12 | Yes | None | None | No |
| Nebraska | Voluntary Content Standards / Essential Learnings, K-12 | Yes | None | None | No |
| Nevada | Content Standards, 3, 8, 12 | Yes | None | None | No |
| New Hampshire | Framework, K-12 | No | Economics (HS) | Economics (HS) | No |

[2] Some local districts mandate (i.e. Economics & Public Issues required in Baltimore) but no mandate on a state-wide basis.
[3] Mandate effective Fall 2007, but already beginning to be implemented.
[4] Effective 2008, students entering high school will need to complete one semester in Economics in order to graduate, but schools already implementing requirement.

## Economics

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| New Jersey | Content Standards, K-12 | Yes | None | None | No |
| New Mexico | Content Standards, K-12 | Yes | Economics (HS) | Economics (HS) | Yes |
| New York | Social Studies Learning Standards, Pre-K-12 | Yes | Economics, the Enterprise System and Finance (HS) | Economics, the Enterprise System and Finance (HS) | Yes |
| North Carolina | Content Standards (HS) /Standard Course of Study, K-12 | Yes | Civics and Economics (HS) | Civics and Economics (HS) | Yes |
| North Dakota | Content Standards, K-12 | No | None | None | No |
| Ohio | Content Standards, K-12 | No | None | None | Yes |
| Oklahoma | Content Standards, K-12 | Yes | None | None | Yes |
| Oregon | Content Standards, K-12 | Yes | None | None | Yes |
| Pennsylvania | Academic Standards/Content Standards, K-12 | Yes | None | None | No |
| Rhode Island | None | N/A | N/A | N/A | N/A |
| South Carolina | Content Standards/Proficiencies/SS Academic Standards, K-12 | Yes | Economics (HS) | Economics (HS) | Yes |
| South Dakota | Content Standards, K-12 | Yes | Economics[5] (HS) | Economics (HS) | No[6] |
| Tennessee | Content Standards, K-12 | Yes | Economics (HS) | Economics (HS) | Yes |
| Texas | Content Standards/Essential Knowledge & Skills, ~~(HS)~~ | Yes | Economics (HS) | Economics (HS) | Yes |
| Utah | Content Standards/Core Curriculum Standards, HS | No | None | None | No |

[5] Students can take a Personal Finance course to fulfill this requirement.
[6] Planned for 2008

## Economics

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Vermont | Content Standards, K-12 | Yes | None | None | No |
| Virginia | Core Curriculum Standards (K-12) /Objectives (MS/HS) | Yes | None | None | Yes[7] |
| Washington | Content Standards, K-12 | No | None | None | No[8] |
| West Virginia | Content Standards, K-12 | Yes | None | None | Yes |
| Wisconsin | Content Standards, K-12 | Yes | None | None | Yes |
| Wyoming | Content Standards (K-12) /Performance Standards Level Descriptors (4,8,11) | Yes | None | None | No |
| District of Columbia | Embedded in Content Standards, K-12 | Yes | None | None | No |
| **Summary** | **49 States, plus DC have Economics "standards"** | **41 States, plus DC require implementation** | **17 States require a Economics course to be offered** | **17 States require a Economics course to be taken** | **23 States require testing** |

[7] At the elementary and middle school level only.
[8] Testing planned in 2008 but will be embedded in SS testing and schools can decide which area to test.




National Council on Economic Education

## 2007 SURVEY OF THE STATES

### Table II: Personal Finance

| Topics | 1998 Survey Findings | 2000 Survey Findings | 2002 Survey Findings | 2004 Survey Findings | 2007 Survey Findings |
|---|---|---|---|---|---|
| Standards | 21 states (42%) include personal finance in their standards. | 40 states (78%) were found to have personal finance standards or guidelines, many within economics standards. | 31 states (62%) were found to have personal finance standards or guidelines, many within economics standards. | 34 states (68%) were found to have personal finance standards or guidelines, many within economics standards | 40 states (80%) were found to have personal finance standards or guidelines, many within economics standards |
| Standards required to be implemented | 14 of the states with standards (67%) require them to be implemented. | 16 of the states with standards (40%) require them to be implemented | 17 of the states with standards (55%) require them to be implemented. | 20 of the states with standards (59%) | 28 of the states with standards (70%) require them to be implemented. |
| Course(s) required to be offered | Information not available | 7 states require a course with personal finance content. | 4 states require a course with personal finance content. | 7 states require a course with personal finance content. | 9 states require a course with personal finance content. |
| Course(s) with required enrollment | 1 state requires students to take a personal finance course. | 4 states require students to take a personal finance course. | 4 states require students to take a personal finance course. | 6 states require students to take a personal finance course. | 7 states require students to take a personal finance course. |
| Student testing required | 1 state tests personal finance knowledge. | 6 states test personal finance knowledge, with tests pending in 1 other state. | 8 states test personal finance knowledge, with tests pending in 2 other states. | 8 states test personal finance knowledge. | 9 states test personal finance knowledge. |

## Personal Finance

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Alabama | Content Standards, MS/JHS/HS | No | None | None | No |
| Alaska | None | N/A | N/A | N/A | N/A |
| Arizona | Content Standards, K-12 | Yes | None | None | No[1] |
| Arkansas | Guidelines, HS | No | None | None | No |
| California | None | N/A | N/A | N/A | N/A |
| Colorado | None | N/A | N/A | N/A | N/A |
| Connecticut | Content Standards , HS | No | None[2] | None | Yes |
| Delaware | Content Standards[3], MS/JHS/HS | Yes | None | None | No |
| Florida | Student Performance Standards, HS | No | None | None | No |
| Georgia | Content/Performance Standards, K-12 | Yes | K-8: Part of SS strand; HS: Part of Economics strand | K-8: Part of SS strand; HS: Part of Economics strand | Yes |
| Hawaii | Content Standards, K-12 | Yes | None | None | No |
| Idaho | Content Standards, K-12 | Yes | Economics & Personal Finance (HS) | Economics & Personal Finance (HS) | Yes[4] |
| Illinois | Guidelines, HS | Yes | Consumer Education (HS) | Consumer Education(HS) | No |
| Indiana | Content Standards, K-12 | Yes | None | None | No |
| Iowa | None[5] | N/A | N/A | N/A | N/A |

[1] Testing planned in future
[2] 57% of high schools have a stand-alone course in personal finance; and more are proposing such a course.
[3] Incorporated into Family & Consumer Science curriculum standards
[4] As part of testing for economics
[5] Family and Consumer Science teachers have been integrating Personal Finance into curriculum.

## Personal Finance

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Kansas | Content Standards/Proficiencies, K-12 | Yes | None | None | No[1] |
| Kentucky | Core Content/Content Standards, K-12 | Yes | None | None | Yes |
| Louisiana | Content Standards[6], K-12 | Yes | Free Enterprise | Free Enterprise | Yes |
| Maine | Content Standards, K-12 | Yes | None | None | No |
| Maryland | None | N/A | N/A | None[7] | No |
| Massachusetts | Learning Standards, Skills & Concepts, K-12 | No | None | None | Yes |
| Michigan | Content Standards, K-12 | Yes | None | None | No |
| Minnesota | Content Standards, HS | Yes | None | None | No |
| Mississippi | Content Standards/Framework, HS | Yes | Personal Finance | None | No |
| Missouri | Content Standards / Competencies, HS | Yes | Personal Finance, HS[8] | Personal Finance, HS[9] | Yes |
| Montana | Content Standards, K-12 | Yes | None | None | No |
| Nebraska | Essential Learnings/Content Standards[10], K-12 | Yes | None[11] | None[12] | No |

[6] Incorporated within the Social Studies standards
[7] Some local school systems are requiring Personal Finance course to graduate
[8] Or subject can be embedded credit in another course incl. economics, consumer resource management, math, ROTC
[9] Effective with Class of 2010 but many schools starting sooner.
[10] Incorporated within the Family and Consumer Science, Business and Social Studies curriculum.
[11] Schools wishing to receive Perkins Funding required to offer at least one semester Personal Finance course each year.
[12] Some local school districts have begun requiring students to take a Personal Finance course.

## Personal Finance

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Nevada | None | N/A | N/A | N/A | N/A |
| New Hampshire | Proficiencies/Framework Standards, MS/JHS/HS | No | None | None | No |
| New Jersey | Content Standards, K-12 | Yes | None | None | No |
| New Mexico | None | N/A | Personal Finance[13] | None | No |
| New York | Standards, HS | No | None | None | No |
| North Carolina | Content Standards/Guidelines, HS | Yes | None[14] | None[14] | No[15] |
| North Dakota | None | N/A | N/A | N/A | N/A |
| Ohio | Content Standards, HS | Yes | None[16] | None[19] | No |
| Oklahoma | None[17] | N/A | N/A | N/A | N/A |
| Oregon | Content Standards, K-12 | Yes | None | None | Yes |
| Pennsylvania | Content Standards[18], K-12 | No[19] | None | None | No |
| Rhode Island | None | N/A | N/A | N/A | N/A |
| South Carolina | Content Standards[20] MS/JHS/HS | Yes | None | None[21] | No |
| South Dakota | Content Standards, K-12 | Yes | Yes[22] | Yes | No |
| Tennessee | Content Standards, HS | No | None | None | No |

[13] Personal Finance is a required elective
[14] A mandate was passed in 2005 requiring the teaching of personal financial literacy to all HS students. The Department of Public Instruction is working on implementing this.
[15] Benchmark testing is being done with Middle School students this year.
[16] Students entering high school after July 1, 2010 will be required to be given financial literacy instruction. Some districts are already addressing this on a voluntary basis.
[17] As of June 2nd Governor Henry signed into law a measure which will require public schools to provide financial literacy instruction to students in grades 7-12 which will go into effect with the 2008-09 school year; the instruction can be incorporated into an existing course or in a separate financial literacy course.
[18] Incorporated in Social Studies and Family, Consumer Science curriculum standards
[19] Dept of Banking has just introduced the Office of Financial Education but it will be some time before the office has an impact on educational community
[20] Incorporated within Family, Consumer Science curriculum standards
[21] Financial Literacy Act of 2005 requires personal finance to be taught at every grade level starting with Kindergarten through 12th grade.
[22] Graduating class of 2010 must take either Economics or Personal Finance course

## Personal Finance

| State | Type of Standards, Guidelines, Proficiencies | Standards Required to be Implemented | Course(s) Required to be Offered and Grade Level(s) | Course(s) in Which Enrollment is Required and Grade Level(s) | Required Student Testing |
|---|---|---|---|---|---|
| Texas | Areas of Instruction, HS | Yes | None | None | No |
| Utah | Content Standards, HS | Yes | General Financial Literacy (HS) | General Financial Literacy (HS) | No |
| Vermont | Content Standards, K-12 | No | None | None | No |
| Virginia | Economic Education & Financial Literacy Objectives, MS/JHS/HS | Yes | None | None | Yes |
| Washington | Content Standards, HS | No | None | None | No |
| West Virginia | Content Standards, K-12 | Yes | None | None | No |
| Wisconsin | Content Standards, K-12 | No | None | None | No |
| Wyoming | Content Standards, HS | Yes | None | None | No |
| District of Columbia | None | N/A | N/A | N/A | N/A |
| | **40 States have PF "standards"** | **28 States require implementation of these standards** | **9 States require a PF course to be offered** | **7 States require a PF course to be taken** | **9 States require testing** |




Written Testimony of Marcia Z. Sullivan

On behalf of

# Consumer Bankers Association

To the House Financial Services Committee

Hearing on

"Financial Literacy and Eduation: The Effectiveness of Governmental and Private Sector Initiatives"

April 15, 2008

Consumer Bankers Association ("CBA") is pleased to provide a written statement for the hearing today titled, "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives." Financial education is as important a topic today, in a challenging economy, as it has been during more prosperous economic times. CBA is committed to the goal of expanding financial education and improving consumers' understanding of the complexities of consumer financial services - whether in mortgages, credit cards, student loans, deposit products, or the myriad ways in which consumers interact with financial services in this complex economy.

The CBA is the recognized voice on retail banking issues in the nation's capital. Member institutions are the leaders in consumer, auto, home equity and education finance, electronic retail delivery systems, privacy, fair lending, bank sales of investment products, small business services and community development. The CBA was founded in 1919 to provide a progressive voice in the retail banking industry. The CBA represents over 750 federally insured financial institutions that collectively hold more than 70% of all consumer credit held by federally insured depository institutions in the United States.

We would like to highlight some of the recent initiatives that CBA has been involved with and wish to express our gratitude to all of our CBA members who have worked diligently to support these initiatives in addition to the extraordinary work they do through their own financial literacy initiatives.

**"Credit Fairy" Campaign.** The Consumer Bankers Foundation, the Leadership Conference on Civil Rights Education Fund, and the Ad Council have partnered to help educate consumers on how they can improve their credit scores. Credit scores impact a consumer's rate and loan terms, access to reputable financial services and access to credit. An individual's credit score is critical because it affects the interest rates one may be charged on virtually all loan products, including mortgages. In a humorous way, the campaign reminds people that "there is no such thing as a credit fairy" – they can improve their credit, but they have to take some simple but important steps to make that happen.

The campaign, which was funded by CBA along with Citicorp, HSBC, National City Bank, SunTrust, and Wachovia, highlights a few straightforward examples of things that can be done to improve your credit score, such as paying bills on time, keeping credit card balances as low as possible, and resisting the urge to open many credit cards in a short period of time. It also refers them to a web site for more information.

The services of the Mullen advertising firm, a AAA-accredited advertising agency have been used to produce the campaign spots, which are running on TV, radio, print, and Internet banner ads. The Ad Council is distributing the campaign to over 28,000 media outlets nationwide via specially designed kits. It will also perform tracking to understand shifts in relevant attitudes, behavior and awareness pre- and post-campaign.

The web site, www.creditfairy.org, is designed to be a reliable, one stop shop for information and resources related to credit history, credit scores, and credit goals. It has interactive tools, such as a literacy quiz; how to navigate a credit report, including samples of reports; credit myths and answers to common questions, success stories; and links to important sites.

**"Hit the Books Running" - College Bound Aid Program.** CBA has been working through its CBA Education Funding Committee and Washington Partners, LLC, its partner on higher education issues to create a resource for students who are considering going to college and need to borrow money to fund their education.

First announced in April, 2007, the program began as a consumer awareness program aimed at reducing student aid debt on graduation by raising awareness of the need to start early, plan ahead, study smart, and to carefully research all financial aid options before considering a loan. To date, CBA's College Bound Aid informational web site, its matte service radio spots and print articles have reached a combined audience in excess of 75 million. The program was also recently recognized by the North American Précis Syndicate with a certificate of excellence for a record 547 airings of one of the radio spots that helped students understand the availability of financial aid through federal loans such as the Federal Family Education Loan program.

The "Hit the Books Running" campaign addresses four major challenges to attending college: understanding the importance of college today, understanding college costs, understanding the need for academic preparation for college, and understanding the need for career and financial counseling. This program encourages early planning and initiatives that parents and students can take to avoid or lessen the burdens of student debt.

The website, www.collegeboundaid.com, is designed to provide student and parent borrowers with one-stop shopping information encouraging them to "Shop Wisely" and educating them how to responsibly borrow for financing higher education financial needs, including encouraging students to exhaust all grants, scholarships, and federal student loans before looking to non-federal student loan options.

Ultimately, CBA believes that an informed consumer is a good bank customer who can maintain responsible spending habits even through challenging financial times. CBA members individually reach out to communities with their own literacy programs, seminars, pamphlets, and on-line resources, and CBA members collectively have worked diligently to craft the national campaigns highlighted here today. We are very proud of our accomplishments and will continue in our efforts to educate consumers through our consumer financial literacy awareness programs. If you need any additional information or have any questions, please feel free to contact Marcia Sullivan, Steve Zeisel, or Darlene Rosenkoetter at (703) 276-1750.

# Promoting Basic Financial Literacy and Education for U.S. Consumers

**Statement of**

## Consumer Action

**www.consumer-action.org**

Submitted for the Record

On the Occasion of the Hearing On:

***Financial Literacy and Education:***
***The Effectiveness of Governmental and Private Sector Initiatives***

**The House Financial Services Committee**

The Honorable Barney Frank, Chairman

**April 15, 2008**

Filed by:
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**Consumer Action**[1], a national nonprofit consumer education and advocacy organization, firmly believes that financially literate consumers are more confident about their money management skills and thereby make more successful personal financial choices and are less vulnerable to scams and predatory financial services. Consumers who are taught personal finance skills and how to prepare for emergencies and/or homeownership demonstrate a higher level of money management skills.

Despite the efforts of many nonprofit organizations and government agencies, there remains a critical need for financial education across many populations—students, young working adults, low-income people, immigrants, the uneducated and older Americans. The continued growth of predatory and abusive lending practices as well as the increasingly high credit card balances carried by average American households, are proof of the great need for improved financial literacy.

In partnership with public and private entities, Consumer Action creates award-winning multilingual educational projects promoting informed participation in the marketplace by people of color, low income and rural consumers, recent immigrants and seniors. *For your information, we have included an outline of our successful multilingual financial literacy programs as an attachment to this statement. Please see Appendix I on page 4.*

**What are the three most important issues that the national strategy should address, and why?**

1. The importance of anticipating, planning, and saving for emergencies—such as job loss, illness or disability—and a worry free retirement.

[1] Consumer Action (www.consumer-action.org) is a national non-profit consumer education and advocacy organization founded in San Francisco in 1971. The organization's hallmark is its free multilingual consumer education materials distributed through a national network of 10,000 non-profit and community-based agencies. Consumer Action serves consumers and its members nationwide by advancing consumer rights, referring consumers to complaint-handling agencies and publishing educational materials. In the coming year, Consumer Action will distribute at least one million pieces of its free consumer education materials. Consumer Action also advocates for consumers in the media and before lawmakers aud compares prices on credit cards, bank accounts and long distance services. Its newsletter, *Consumer Action News*, is published several times a year and contains articles of general interest to consumers as well as news of the organization. All Consumer Action publications are available on its free web site (www.consumer-action.org), which is visited more than six million times a year.

2. How to prepare for home ownership and how personal credit affects the ability to seek reasonably priced mortgages and avoid predatory loans.

3. Understanding financial services (including banking, credit, credit cards and insurance); sound financial planning concepts, and how to manage debt.

**What existing resources may be used to address those issues, and how could they be employed?**

- Increase public funding streams to nonprofit consumer advocacy and community based organizations to create free materials, outreach and training. Streamline the grant making process so that community based organizations serving critical populations do not need to divert critical staff time to needlessly complicated RFP models.

- Create coalitions of key stakeholders to coordinate and promote the use of existing financial literacy programs.

- Hold forums in which community and consumer groups can network with financial services industry associations and corporations to air problems and concerns and to create partnerships.

**What are the best ways to improve financial literacy and financial education in the United States?**

- Partner with nonprofit consumer advocacy and community based organizations to create free materials, outreach and training. These organizations are regarded with trust in the community.

- Provide community partners with ongoing financial support to allow them to fully participate in the national financial literacy agenda.

- Bring together stakeholders to further develop and coordinate existing financial literacy programs.

- Increase awareness of success stories, best practices and key incentives for teaching financial literacy.

- Ensure financial literacy curriculums at the primary and secondary school levels.

- Ensure the availability of in-language materials and outreach.

**APPENDIX I**

**Consumer Action's Model Community-based Education Project**

Consumer Action is a national, non-profit 501(c)(3) membership organization headquartered in San Francisco, with staff based in Los Angeles and Washington, D.C.

Founded in 1971, Consumer Action is recognized throughout the country for its history of writing, translating and distributing multilingual educational materials and guides on telephone, privacy, health care, insurance, utility and financial services.

In partnership with public and private entities, Consumer Action creates award-winning multilingual educational projects promoting informed participation in the marketplace by people of color, low income and rural consumers, recent immigrants and seniors.

Several years ago, Consumer Action entered into a multi-year project with the U.S. Department of the Treasury to improve financial literacy at the community level. During this contract, we examined and broadened the scope of our free educational outreach efforts to make them more effective. In subsequent projects, we further refined the new approach to create a multi faceted model for increasing financial literacy in our target populations.

**The Consumer Action Model**

These are the elements of Consumer Action's free multilingual community-based education and outreach model:

- Free educational modules that include: multilingual fact sheets, leader guides for community staff who counsel consumers; and PowerPoint workshop presentations, curricula and worksheets. We create between five and ten modules a year. Consumer Action retains independent editorial control over its publications. The materials are distributed through our national community based organization (CBO) network of 7,300 agencies. Our cost effective approach allows agencies to request bulk orders only for the number of publications they need, and all shipping costs are paid for by Consumer Action. CBO staff hand the publications to their clients in one-on-one counseling sessions and use them in workshop settings.

  The materials we create are written clearly and simply, translated into the languages used in the community and distributed to consumers who are not be reached by traditional efforts. Throughout the country, Consumer Action is recognized as the primary source of free, multilingual, consumer educational materials used in the community.

- Each year we distribute more than two million publications through our national network of more than 10,000 CBOs and via individual requests. Virtually all of our publications are available in Chinese, English, Korean, Spanish and Vietnamese.

- Train-the-trainer regional meetings, which bring together CBO staff from multi-state regions to be trained by Consumer Action on using its modules and on best practices for reaching and educating people of color, low income consumers and immigrants in various communities. Over the last two years, Consumer Action trained staff from more than 500 agencies in cities including: Oakland, Dallas, Tampa, Los Angeles, Chicago, Portland, Phoenix, Miami, Charlotte, NC and Washington, DC. Following the regional meetings, the participants in turn train their agency staff and volunteers. In conjunction with the regional meetings, we train the corporate partner's staff volunteers to conduct trainings in the community.

- Local train-the-trainer roundtables that are hosted by agencies that attended our regional meetings. Hosting agencies are responsible for recruiting community groups to their roundtable. Consumer Action staff train the participants on using the educational modules in the community. In the last two years more than 500 agencies have attended the roundtables we have held in Miami, New York City, Los Angeles, Seattle, Ft. Lauderdale, San Francisco, Philadelphia and suburban Maryland.

- Multilingual media promotion, including press releases, Public Service Announcements (PSAs), Video and Audio News Releases (VNRs and ANRs) and satellite media tours. Our media spokespersons conduct interviews in Chinese, English and Spanish. Consumer Action's media outreach allows us to deliver key educational messages to millions of consumers we might not reach otherwise. For example, a recent ANR reached more than 27 million listeners on close to 500 radio stations. Our media efforts encourage consumers to request individual copies of our fact sheets by mail or to access them on our web site.

- Consumer Action's unique, multilingual web site (consumer-action.org) features our pricing surveys and more than 250 fact sheets and brochures. Each year more than 500,000 publications are accessed through our web site that receives more than 500,000 visits a month.

  In addition, our CBO e-mail list serve alerts community agency staff about new publications and issues of concern and invites them to click back to our web site, where they can download publications or weigh in on key issues. Our CBOs are reached by our educational, train-the-trainer webinars. Consumer Action also assists CBO staff with technical advice through toll free numbers in its Los Angeles and San Francisco offices.

- Consumer Action's national stipend grant program funds agencies to use its educational modules in the community. In the last two years, Consumer Action has awarded a total of $200,000 to 60 CBOs in grants of $1,000 to $5,000. Consumer Action's grants support effective community education at very low cost. While Consumer Action provides the training and materials, the CBOs tailor their programs to the individual needs of their community.

- Consumer advice and referral Hotlines are provided in Chinese, English and Spanish. Consumers are also assisted through our Web site Hotline. Our counselors assist consumers with questions and problems on topics including those covered by our publications. All complaints are logged into a database, which is made available on a case-by-case basis to help the media, attorneys, lawmakers and regulatory officials monitor consumer complaints.

**Our Partners**

Consumer Action works in educational partnerships with all segments of the community, including government agencies (such as the U.S. Department of Housing and Urban Development (HUD), the U.S. Department of the Treasury, EPA, FDIC and the Federal Reserve), major corporations (including AT&T, Capital One, PacifiCare, Microsoft, MCI, Sprint, Verizon, MCI, SBC, Bank of America, Washington Mutual, Visa and American Express); community-based organizations (including the national networks of county extension services and Consumer Credit Counseling Services; faith based organizations and churches as well as thousands of agencies serving people of color, seniors, people with disabilities and recent immigrants.

In addition, we have completed more than 150 translation contracts in Spanish and Asian languages for the federal government, non-profit agencies and corporations.

**Our Goal**

Consumer Action seeks to expand its educational work in the community by partnering with public and private entities. For more information, please contact Consumer Action Executive Director Ken McEldowney by phone at 415-777-9648 or by e-mail at ken.mceldowney@consumer-action.org.

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# EBRI News

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**FOR RELEASE:** **12:01 a.m. EDT, April 9, 2008**

CONTACTS: John MacDonald, EBRI, (202) 775-6349, macdonald@ebri.org
Jack VanDerhei, Temple University and EBRI Fellow, (202) 775-6327, vanderhei@ebri.org

**Embargoed for Release at 12:01 a.m. EDT, Wednesday, April 9, 2008**

***18th Annual Retirement Confidence Survey:*®**

## Workers Show Record Drop in Retirement Confidence, Health Care and Economy Are Major Concerns

WASHINGTON—Reflecting the growing concern over health care costs and economic issues, American workers' confidence in being able to afford a comfortable retirement decreased over the past year by a rate unmatched in the 18 years of the Retirement Confidence Survey® (RCS), according to results released today.

The percentage of workers *very* confident about having enough money for a comfortable retirement decreased sharply, from 27 percent in 2007 to 18 percent in 2008, the biggest one-year drop in the 18-year history of the survey. *Retiree* confidence in having a financially secure retirement also decreased, from 41 percent to 29 percent, a drop of 12 percentage points. Decreases in confidence occurred across all age groups and income levels but was particularly acute among younger workers and those with lower income.

RCS results indicate health costs in particular have become a big concern for retirees: Among retirees who left the work force earlier than planned, more than half (54 percent) say they did so because of health problems or disability. Almost half of retirees (44 percent) say they have spent more than expected on health care expenses. More than half of retirees (54 percent) say they are now more concerned about their financial future than they were right after they retired, a 14 percentage-point increase from a year ago (40 percent in 2007).

"In the nearly two decades we have been conducting the RCS, this year's results show a very dramatic reduction in the public's confidence about having a comfortable retirement. The economy and health costs are major concerns," said Dallas Salisbury, president of the nonpartisan Employee Benefit Research Institute (EBRI), which conducted the survey with Mathew Greenwald & Associates. "If there is a silver lining, it's that Americans finally may be waking up to the realities of being able to afford retirement."

In addition, the survey found that about half of workers (47 percent) say they and/or their spouse have tried to calculate how much money they will need for a comfortable retirement, up considerably from the low point of 29 percent measured in 1996. As before, the 2008 survey finds that doing a retirement savings calculation is particularly effective at changing worker behavior: 44 percent who calculated a goal changed their retirement planning, and of those almost two-thirds (59 percent) started saving or investing more.

The RCS is the country's longest-running and most comprehensive study of the attitudes and behavior of American workers and retirees toward all aspects of saving, retirement planning, and long-term financial security. Full results of the survey appear in the April 2008 *EBRI Issue Brief* available online at www.ebri.org/RCS/2008/, along with five RCS Fact Sheets that provide additional detail on health costs, saving for retirement, gender issues, age issues, and attitudes on Social Security and Medicare. The survey was funded by contributions from 40 underwriters.

The survey picked up several other signs of public unease about retirement:

- ***Overall concerns about basic expenses:*** Confidence in specific financial aspects related to retirement decreased. In particular, the percentage *very* confident in having enough money to take care of basic expenses decreased from 40 percent in 2007 to 34 percent in 2008 for *workers* and from 48 percent to 34 percent for *retirees*.

*((MORE)*

- ***Worker health concerns:*** Measured another way, workers said they are increasingly *not confident* about having enough money for medical expenses (43 percent in 2008, up from 32 percent in 2007) and for long-term care expenses (54 percent in 2008, up from 44 percent last year).
- ***Retiree concerns:*** Retirees' loss of confidence is reflected in several attitudes they hold about their retirement finances. Retirees are less likely than in 2007 to believe they can always cut back on their lifestyle if it looks like they might use up all of their savings (61 percent, down from 70 percent). At the same time, 39 percent of retirees now think they are likely to live long enough to use up all of their savings (up 10 percentage points from 29 percent in 2007).
- ***Retiree health coverage:*** Barely one-third of all workers now expect to have access to employment-based health insurance in retirement, down 8 percentage points (from 42 percent in 2007 to 34 percent in 2008). Although 41 percent of retirees say they currently have access to health insurance through a former employer, many employers are eliminating health care coverage for future retirees.
- ***Confidence by age and income:*** The percentage saying they are *very* confident about having enough money for a comfortable retirement decreased from 31 percent in 2007 to 18 percent in 2008 among workers ages 25–34, and from 28 percent to 16 percent among workers ages 35–44. Similarly, it decreased from 14 percent to 5 percent among workers with household income under $35,000 and from 25 percent to 13 percent among those with income of $35,000–$74,999.

The survey also provides some evidence that concerns about the present may be limiting Americans' ability to think about or plan for their future situation in retirement. When asked what they think is the most pressing financial issue facing most Americans today, just 5 percent of workers and 4 percent of retirees cited saving or planning for retirement. Instead, most mention:

- Making ends meet or the cost of living (17 percent of workers, 19 percent of retirees).
- Paying for health insurance or medical expenses (16 percent of workers, 25 percent of retirees).
- Making mortgage payments or paying for housing (16 percent of workers, 10 percent of retirees).
- Paying down debt or loans (13 percent of workers, 5 percent of retirees).
- Fuel or energy costs (9 percent of workers and retirees).
- Job uncertainty (6 percent of workers, 8 percent of retirees).

The 2008 Retirement Confidence Survey® was conducted in January 2008 through 20-minute random telephone interviews with 1,322 individuals (1,057 workers and 265 retirees) age 25 and older in the United States. The survey has a margin of error of plus or minus 3 percentage points. Details of the methodology appear in the April 2008 *EBRI Issue Brief.*

EBRI is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions. www.ebri.org

Underwriters of the 2008 RCS include 40 organizations: Alliance Bernstein, Allstate, American Express, Ameriprise Financial, Inc., American Institute of Certified Public Accountants, Aon Consulting, Inc., AT&T, Barclays Global Investors, Buck Consultants, CalSTRS, CitiStreet, Deere & Company, ELM Income Group, Financial Engines, Financial Industry Regulatory Authority, Genworth Financial, Goldman, Sachs & Co., Goldman Sachs Asset Management, Hewitt Associates, IBM, Investment Company Institute, Mass Mutual Financial Group, Mercer, MFS/SunLife, PIMCO, Principal Financial Group, Procter & Gamble, Pyramis Global Advisors, Rockefeller Foundation, Russell Investment Group, Segal Company, Society for Human Resource Management, State Street Corp., Towers Perrin, and the Charter Partners of the American Savings Education Council: AARP, Fidelity Investments, InCharge Education Foundation, MetLife, Nationwide Financial Services, Prudential Retirement.

PR #796

## Press Releases

### FDIC to Conduct First Nationwide Survey of Banks' Efforts to Bring "Unbanked" Consumers Into Economic Mainstream

**FOR IMMEDIATE RELEASE**
**April 11, 2008**

**Media Contact:**
**Andrew Gray (202) 898-7192**

The Federal Deposit Insurance Corporation (FDIC) will this spring conduct a nationwide survey of FDIC-insured depository institutions to assess their efforts to serve unbanked and underbanked individuals and families. This survey is the first of its kind at the national level.

"This is a critically important survey – one that should yield significant new insights about the opportunities for banks to meet the diverse financial needs of U.S. households," said FDIC Vice Chairman Martin J. Gruenberg. "At the FDIC, we are strongly committed to developing more and better data about unbanked and underbanked households, as well as the barriers that may be preventing them from using products and services that insured institutions provide."

Survey questionnaires will be sent to a probability sample of FDIC-insured institutions during the second quarter of 2008. Questions will focus on banks' financial education and outreach strategies; deposit, payment and credit products offered to entry-level consumers; and other related topics. The survey will also identify challenges insured institutions may face serving unbanked and underbanked customers. Detailed case studies highlighting specific institutions' programs will be an important part of the survey.

Under the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, the FDIC is required to conduct biennial surveys of insured depository institutions' efforts to bring individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check-cashing account at an insured depository institution into the conventional finance system.

In its continuing effort to bring unbanked and underbanked consumers into the economic mainstream, the FDIC also is exploring the feasibility of conducting, along with the U.S. Bureau of the Census, the first national household survey to collect data on the numbers and demographic characteristics of unbanked and underbanked households, as well as the barriers they perceive when deciding how and where to conduct financial transactions.

Additional information regarding the FDIC's unbanked survey efforts can be found at www.fdic.gov/unbankedsurveys.

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 8,534 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars – insured financial institutions fund its operations.

FDIC press releases and other information are available on the Internet at www.fdic.gov, by subscription electronically (go to www.fdic.gov/about/subscriptions/index.html) and may also be obtained through the FDIC's Public Information Center (877-275-3342 or 703-562-2200). **PR-29-2008**

## Press Releases

### FDIC's Adult Financial Literacy Program Surpasses Milestone; New Version to Help School-age Kids Learn About Money

**FOR IMMEDIATE RELEASE**
**April 14, 2008**

**Media Contact:**
**David Barr (202) 898-6992**

The Federal Deposit Insurance Corporation (FDIC) reports that one million Americans have had the opportunity to become more financially savvy through participating in its financial education program, *Money Smart*. In addition to surpassing that significant milestone, the FDIC today announced that it is making the program available to even more people with the introduction of *Money Smart for Young Adults*.

The FDIC's *Money Smart for Young Adults* curriculum helps instructors teach youth between ages 12 and 20 the basics of handling their money and finances, including how to create positive relationships with financial institutions. The curriculum is aligned with educational standards for all 50 states and the District of Columbia, in addition to Jump$tart national financial literacy standards and National Council on Economics Education national economics standards.

"*Money Smart for Young Adults* will provide students with the basic knowledge and skill sets they need to manage their money wisely," said FDIC Chairman Sheila C. Bair. "I am confident that the new curriculum will become an essential tool for schools, youth groups and other organizations to teach young people the importance of saving and how to develop good financial habits early in life."

Each of the eight instructor-led modules in *Money Smart for Young Adults* includes a fully scripted instructor guide, participant guide and overhead slides. The materials also include an optional computer-based scenario that allows students to complete realistic exercises based on each module, such as shopping for a credit card. The curriculum is free and can be customized to meet audience needs.

The FDIC also signed an agreement with Operation Hope to facilitate the delivery of the new *Money Smart for Young Adults* curriculum in the D.C. Public School system. This will be the first public school system to benefit from the new curriculum.

The material is based on the award-winning *Money Smart* adult education curriculum, which has proven results in how those who complete the curriculum manage their finances. The FDIC's instructor-led curriculum was revised and enhanced as of the end of 2006, and is available in English, Spanish, Chinese, Korean, Vietnamese and Russian, as well as in a large print/Braille version. The computer-based version was enhanced as of the end of 2007; the English version is now available, and the Spanish version will be available later in 2008.

Additional information on *Money Smart for Young Adults* is available at http://www.fdic.gov/consumers/consumer/moneysmart/young.html.

###

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 8,534 banks and savings associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars – insured financial institutions fund its operations.




National Association of Federal Credit Unions
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Fred R. Becker, Jr.
*President and CEO*

April 14, 2008

The Honorable Barney Frank
Chairman
House Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Spencer Bachus
Ranking Member
House Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Frank and Ranking Member Bachus:

I am writing on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade organization that exclusively represents the interests of our nation's federal credit unions, in conjunction with your hearing entitled "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives" to share some comments on this important issue.

As Americans are faced with an ever widening array of financial services, it is important that consumers are armed with a sound understanding of the basics of personal finance. Financially literate individuals are more likely to spend prudently and put money in savings, retirement funds and other wealth building accounts. Conversely, the same individuals are less likely to rack up large, burdensome—and sometimes unaffordable—debt and are less likely to be victims of predatory practices.

NAFCU and our member credit unions know that financial literacy is an issue that touches all Americans – at every age and income level. Intertwined with financial literacy is personal savings. The nation's savings rate is slumping and personal savings are near their lowest level since the Great Depression. At the end of the fourth quarter of 2007, the personal savings rate for the United States was zero percent. Large numbers of Americans habitually spend instead of save. Credit unions know that saving is a matter of choice and that the most important factor in long-term wealth accumulation is the act of saving itself. NAFCU is proud to be pro-actively involved in promoting financial literacy and personal savings in America.

As I am sure you are already aware, improving financial education and teaching members to invest prudently is a hallmark of the credit union community. Listed below are just a few examples of the thousands of credit union successes in providing financial literacy and making a positive impact in communities across the nation.

**Credit Union Financial Education Programs**

***Summit Federal Credit Union*** *(Rochester, NY)* provides financial education programs for all ages. Summit Federal Credit Union works with the Hillside Work Scholarship Connection, the Roland Williams Youth Lifeline Foundation and the Clover Lanes Bowling Center to run a six-week financial literacy course that teaches the basics of personal finance. Each one-hour session covers topics such as financial goal setting, savings, investments, budgeting, savings and checking accounts and credit. The Clover Lanes Bowling Center hosts the classes and provides free bowling for the students following their session.

Summit Federal Credit Union also provides seminars for adults, educating its members on how to purchase your first house, get out of debt, protect yourself from fraud and identity theft and also offers a general survey seminar on the basis of credit. These programs ensure that their members are smart about their finances and ultimately make positive money management decisions to improve their financial lives.

- ***LA DOTD Federal Credit Union*** *(Baton Rouge, LA)* teaches students the importance of money-management skills and "real world" business practices by allowing children to participate in their first in-school credit union. LA DOTD has partnered with the Staring Education Center, which is an alternative middle school for over-aged children in the East Baton Rouge Parish Public School System. Many of the students are two years behind academically. This in-school credit union allow students to create savings accounts, accept deposits from classmates and teachers, and train as managers, marketing directors and member service representatives.

***Belvoir Federal Credit Union*** *(Woodbridge, VA)* has partnered with Prince William County Public Schools to create a student-run branch, "Viking Vault," which is conveniently located inside Woodbridge Senior High School. Each school year, a group of students manage the credit union, which allows its members to save for various events, including prom expenses, high school rings, and other gift giving holidays. The credit union offers experience with savings, checking and credit card accounts, and other loan programs.

***McCoy Federal Credit Union*** *(Orlando, FL)* has created a program that follows children from grade school to adulthood. McCoy Federal Credit Union's "Youth Savings Program" allows its younger members to open no-fee savings account. As incentives, the younger members receive various gifts once they reach different savings levels of $100, $250, $500, $750 and $1,000. By reaching out to the youth in the community, McCoy Federal Credit Union garners meaningful relationships that gain the trust of its members, as well as teach them financial responsibility.

Credit unions have long been leaders in financial literacy, which is the cornerstone to financial well-being. We thank you for holding this important hearing and we look forward to continuing to work with the Committee to develop innovative and effective financial education initiatives. Please do not hesitate to contact me or NAFCU's Director of Legislative Affairs, Brad Thaler at 703-522-4770 with any questions that you may have.

Sincerely,

Fred R. Becker, Jr.
President/CEO

cc: Members of the House Financial Services Committee

Mr. Chairman - Thanks for your consideration of the marking work of credit union issues!



NETWORKS FINANCIAL INSTITUTE
At Indiana State University

**NFI Comments to the Committee on Financial Services:**
***Financial Literacy and Education:***
***The Effectiveness of Governmental and Private Sector Initiatives***

Networks Financial Institute (NFI), an outreach of Indiana State University, appreciates the opportunity to provide comments to the Committee on Financial Services regarding its hearing, "Financial Literacy Education: The Effectiveness of Governmental and Private Sector Initiatives." We congratulate the Committee on seeking to foster the creation of effective solutions that would combat the profound impact of financial illiteracy: bankruptcy, foreclosure, credit card misuse, predatory lending, among other challenges.

NFI feels that for any initiatives to have the potential to be effective, they must be grounded in research. To that end, in 2007, NFI undertook two comprehensive studies, national in scope, to better understand the delivery of adult financial literacy services from both the consumer and provider perspectives.

In the consumer survey (http://www.networksfinancialinstitute.org/Lists/Publication%20Library/Attachments/84/2007-NFI-05_AdultFL.pdf), NFI sought to:

- Assess the baseline knowledge of adults in the United States relative to financial literacy topics.
- Understand the types of information sought to assist in enhancing personal financial education.
- Determine areas in which adults need the most help with personal financial education.
- Identify current source(s) of information and materials adults use to seek financial literacy education.
- Understand perceived barriers adults face in seeking personal financial literacy education.

NFI found that the majority of U.S. adults have not received any financial literacy instruction in the past 12 months. Despite this, the great majority – more than 8 in 10 – U.S. adults think it is important that financial literacy be taught. The lack of available funds to save or invest is cited as the main reason for not seeking out financial literacy educational programs.

Respondents also noted that the most widely valued sources that they use to gain financial knowledge are family, friends or colleagues. Formal providers of these services, such as financial institutions and professional planners, rank below these groups, although financial planners are more valued. Human resources personnel and credit counselors are the least valued and used sources.



NETWORKS FINANCIAL INSTITUTE
*At Indiana State University*

In NFI's research with financial education providers (findings will be unveiled at the Federal Reserve in Chicago at our October 7 financial literacy event), both for profit and not-for-profit, questions asked respondents to discuss the programs and services related to financial literacy that their organizations offered, in order…

- To understand the level of financial literacy education that is offered to adults by financial services, government and non-profit organizations.
- To assess the content and focus of the organizational support for adult financial literacy education.
- To understand the breadth of resources and/or programs offered for adult financial literacy education.
- To understand the roadblocks and challenges in offering adult financial literacy education.
- To assess the type of adults served by these organizations for financial literacy education.

Most organizations surveyed feel that there is a great need for financial literacy education in the U.S. as a whole, beyond the people that these organizations directly serve. When asked which types of organizations were the best fit to deliver financial literacy programming, each area self identified (e.g., financial services companies felt that they themselves were the best fit; not-for-profits felt that their organizations were the best fit, and higher education felt that it was the best fit).

Regarding the programming the organizations offer, not-for-profit organizations offer in-person programs more frequently than financial services and government. Financial services and government respondents reported that their respective organizations offer either online and in-person programs or in-person programs only. Very few organizations only offer online programs. Organizations offer a mix of classes and counseling for adult financial education, and as participants evaluated their resource offerings, they also felt that their financial literacy programming was effective.

When contrasted with NFI's consumer research discussed earlier, the fact that for profit and non profit practitioners view their own programming and resources as effective may signal an opportunity for governmental, not-for-profit, financial services and higher education to take a another look at their financial literacy efforts. NFI's research and findings offers valuable insight to all sectors of financial literacy providers as they seek more effective ways to design and deliver of their educational services.

These findings are relevant to classrooms as well, from both a student and teacher perspective. In NFI's 2007 national study of K-12 educators, (http://www.networksfinancialinstitute.org/Lists/Publication%20Library/Attachments/86/2007-NFI-03_Godsted-McCormick.pdf), uncovered the following:



NETWORKS FINANCIAL INSTITUTE
*At Indiana State University*

- Teachers' personal knowledge of financial literacy is not well defined, and many do not rate their personal knowledge of the subject highly.
- After the ever-present challenge of finding time, the second ranking obstacle for teachers is the lack of specific academic standards mandating financial literacy.

Our nation's educators have spoken very clearly about what keeps them from teaching financial literacy (only half of all surveyed educators cover material related to this topic). The results indicate that a comprehensive professional development program for teachers across the country is necessary in order for educators to feel comfortable with teaching financial topics in general.

NFI works to create and support positive change in financial literacy through research, collaboration, and implementation of financial literacy education programs. Our mission is to disseminate effective programs as widely as possible to eliminate skyrocketing rates of bankruptcy, mortgage foreclosure, and debt - among other financial constraints - that are hurting American families. For additional information, please do not hesitate to contact us. We look forward to continuing to work with you and assisting with all federal initiatives surrounding financial literacy.

United States Government Accountability Office

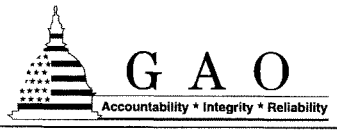
GAO

Report to Congressional Committees

December 2006

# FINANCIAL LITERACY AND EDUCATION COMMISSION

## Further Progress Needed to Ensure an Effective National Strategy




GAO-07-100

GAO
Accountability · Integrity · Reliability
Highlights

Highlights of GAO-07-100, a report to congressional committees

December 2006

# FINANCIAL LITERACY AND EDUCATION COMMISSION

## Further Progress Needed to Ensure an Effective National Strategy

### Why GAO Did This Study

The Financial Literacy and Education Improvement Act created, in December 2003, the Financial Literacy and Education Commission. Responding to the act's mandate that GAO assess the Commission's effectiveness, this report reviews its progress in (1) developing a national strategy; (2) developing a Web site and hotline; and (3) coordinating federal efforts and promoting partnerships among the federal, state, local, nonprofit, and private sectors. To address these objectives, GAO analyzed Commission documents, interviewed financial literacy representatives, and benchmarked the national strategy against GAO's criteria for such strategies.

### What GAO Recommends

GAO recommends that the Commission (1) incorporate additional elements into the national strategy to help measure results and ensure accountability, (2) conduct usability tests of and measure customer satisfaction with its Web site, (3) independently review for duplication and evaluate the effectiveness of federal activities, and (4) expand upon current efforts to cultivate sustainable partnerships with nonprofit and private entities. Responding to a draft of this report, the Treasury Department said it would consult with the Commission on addressing GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-100.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne D. Jones (202) 512-8678 or jonesy@gao.gov.

### What GAO Found

The National Strategy for Financial Literacy serves as a useful first step in focusing attention on financial literacy, but it is largely descriptive rather than strategic and lacks certain key characteristics that are desirable in a national strategy. The strategy provides a clear purpose, scope, and methodology and is comprehensive in identifying the breadth of issues involved and the challenges in addressing them. However, it does not serve as a plan of action designed to achieve specific goals, and its recommendations are presented as "calls to action" that generally are either descriptions of existing initiatives or broad pronouncements that do not include a specific implementation plan. The strategy also does not fully address some of the desirable characteristics of an effective national strategy that GAO has previously identified. For example, it does not set clear and specific goals or performance measures by which to benchmark progress, address the resources needed to accomplish these goals, or fully discuss appropriate roles, responsibilities, and accountability. As a result of these factors, most organizations that GAO spoke with said the strategy would not play a meaningful role in guiding or informing their efforts.

The Commission's Web site and telephone hotline offer financial education information from numerous federal agencies. The Web site generally serves as an effective portal to existing federal financial literacy sites. Use of the site has been growing, and it averaged about 57,000 visits per month from May through September 2006. The volume of calls to the hotline—which serves as an order line for a free tool kit of federal publications—has been limited. The Commission has not tested the Web site for usability or measured customer satisfaction with it; these are recommended best practices for federal public Web sites. As a result, the Commission does not know if visitors are able to find the information they are looking for efficiently and effectively.

The Commission has taken steps to coordinate the financial literacy efforts of federal agencies and has served as a useful focal point for federal activities. However, coordinating federal efforts has been challenging, in part because the Commission must achieve consensus among 20 federal agencies, each with its own viewpoints, programs, and constituencies, and because of the Commission's limited resources. A survey of overlap and duplication and a review of the effectiveness of federal activities relied largely on agencies' self-assessments rather than the independent review of a disinterested party. The Commission has taken steps to promote partnerships with the nonprofit and private sectors through various public meetings, outreach events, and other activities. The involvement of state, local, nonprofit, and private organizations is important in supporting and expanding Commission efforts to increase financial literacy. As the Commission continues to implement its strategy, it should consider expanding its activities and work to develop mutually beneficial and lasting partnerships that will be sustainable over the long term.

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## Abbreviations

| | |
|---|---|
| FDIC | Federal Deposit Insurance Corporation |
| GSA | General Services Administration |

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**United States Government Accountability Office**
**Washington, DC 20548**

December 4, 2006

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
United States House of Representatives

A growing body of evidence indicates that many Americans are lacking in financial literacy—the ability to make informed judgments and manage money effectively. Numerous studies published in recent years have shown that most adults and students have not mastered basic economic concepts, such as the risks associated with investment choices. Poor financial literacy can reduce consumers' economic well-being and security in a variety of ways.[1] For example, poor financial management and decision making can result in a lower standard of living and prevent families from reaching important long-term goals, such as buying a home, paying for college education, and adequately funding retirement. Financial literacy has broader public policy implications as well. For instance, financial markets function best when consumers understand how financial services providers and products work and know how to choose among them. Further, educating the public about the importance of saving may be critical to boosting our national saving rate, an important element to improving America's economic growth.

To help address this issue, Title V of the Fair and Accurate Credit Transactions Act of 2003, cited as the Financial Literacy and Education Improvement Act, created the Financial Literacy and Education

[1]For example, see Sandra Braunstein and Carolyn Welch, "Financial Literacy: An Overview of Practice, Research, and Policy," *Federal Reserve Bulletin*, November 2002.

Commission (the Commission).[2] The Commission, which is made up of 20 federal agencies, was charged with developing a national strategy—which is to be reviewed annually and modified as deemed necessary—to improve basic financial literacy and education for all Americans. The act also said that to implement the strategy the Commission shall coordinate federal financial education efforts and promote partnerships between and among federal, state, and local governments, nonprofit organizations, and private enterprises. As part of the national strategy, the Department of the Treasury (Treasury Department) was required to develop and disseminate a multimedia campaign to improve financial literacy. The law also required the Commission to create a Web site and toll-free telephone hotline to disseminate financial education to the public. The Commission is chaired by the Secretary of the Treasury and is coordinated through the department's Office of Financial Education.

The Financial Literacy Act also mandated that we assess the effectiveness of the Commission in promoting financial literacy and education.[3] As agreed with your offices, this report responds to that mandate by reviewing the Commission's progress in (1) developing an effective national strategy to promote financial literacy and education; (2) implementing its Web site, hotline, and multimedia campaign; and (3) coordinating federal financial literacy efforts and promoting partnerships among government, nonprofit, and commercial organizations.

To address these objectives, we reviewed the Financial Literacy Act and analyzed relevant Commission documents, including the National Strategy for Financial Literacy, comment letters on the national strategy's development, and meeting minutes of the Commission and its working groups and subcommittees. We interviewed representatives of all 20 federal agencies that are members of the Commission, as well as representatives of 12 organizations that address issues of financial literacy

[2]Pub. L. No. 108-159, Title V, 117 Stat. 2003 (Dec. 4, 2003) (codified at 20 U.S.C. §§ 9701–08). Hereafter, this report refers to the Financial Literacy and Education Improvement Act as the "Financial Literacy Act."

[3]We have previously issued three other reports mandated by the Fair and Accurate Credit Transactions Act of 2003. See GAO, *Identity Theft: Some Outreach Efforts to Promote Awareness of New Consumer Rights Are Under Way*, GAO-05-710 (Washington, D.C.: June 30, 2005); GAO, *Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts*, GAO-05-223 (Washington, D.C.: Mar. 16, 2005); and GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, GAO-05-93SP (Washington, D.C.: Nov. 15, 2004).

in the private, nonprofit, academic, and state and local government sectors. We assessed the national strategy, in part, by benchmarking it against general characteristics of an effective national strategy we have identified in prior work. We also gathered and analyzed data on the content and usage of the Commission's Web site, telephone hotline, and publication tool kit. We compared the Web site against best practices for federal public Web sites recommended by the Web Content Managers Advisory Council.

We conducted our work from January 2006 through November 2006 in accordance with generally accepted government auditing standards. A more extensive discussion of our scope and methodology appears in appendix I.

## Results in Brief

The National Strategy for Financial Literacy is comprehensive in scope and serves as a useful first step in focusing attention on financial literacy, but it is largely descriptive rather than strategic and lacks certain key characteristics that are desirable in a national strategy. To develop it, the Commission created a working group of 13 agencies, issued a call for public comment in the *Federal Register*, and held public meetings. The Commission issued the document 10 months after the mandated release date, in part because the agencies had difficulty reaching consensus on its content. The strategy is comprehensive, discussing many of the major challenges in improving financial literacy, presenting an overview of key issues—such as target populations and subject areas—and describing a variety of financial literacy initiatives in the government, nonprofit, and private sectors. However, its recommendations are presented as "calls to action" that are generally either descriptions of existing initiatives or broad pronouncements that do not include a plan for implementation. Further, the strategy only partially addresses some of the characteristics we have previously identified as desirable for any effective national strategy. For example, although it provides a clear purpose, scope, and methodology, it does not go far enough to provide a detailed discussion of problems and risks; establish specific goals, performance measures, and milestones; discuss the resources that would be needed to implement the strategy; or discuss, assign, or recommend roles and responsibilities for achieving its mission. As a result, most federal and nonfederal agencies we interviewed said that the national strategy was unlikely to have a significant impact on their financial literacy and education efforts.

The Commission's Web site and telephone hotline offer consumers financial education information from several federal agencies. The My

Money Web site serves as a portal to more than 260 other federal financial education sites, and representatives of financial literacy organizations generally told us that the site served its purpose effectively. Use of the Web site has been growing, and it received about 628,000 visits in fiscal year 2006—roughly comparable to private sector financial literacy sites we reviewed. Largely because of competing priorities and resource constraints, officials responsible for developing the site have not yet implemented certain best practices recommended for federal public Web sites, such as testing for usability and measuring customer satisfaction. As a result, the Commission does not know if visitors are able to find the information they are looking for efficiently and effectively. The telephone hotline serves as an order line for a free "tool kit," which consists of publications on financial topics from several federal agencies. The volume of calls to the hotline has been limited— for example, an average of about 200 calls per month between February 2005 and February 2006—possibly because of a lack of publicity. To fulfill a Financial Literacy Act requirement that the Treasury Department develop a pilot national public service campaign for financial literacy and education, the department has contracted with the Advertising Council to create a campaign designed to improve credit literacy among young people. The campaign, which is scheduled to be distributed to media outlets by the spring of 2007, will also promote the Commission's Web site and telephone hotline.

The Commission has played a role in coordinating federal agencies and promoting public-private partnerships but has faced certain challenges in these areas. The Commission created a single focal point for federal agencies to come together on the issue of financial literacy, and several of the national strategy's calls to action involve interagency efforts. The financial literacy Web site and hotline have also consolidated information from a number of federal agencies. However, the Commission has faced challenges coordinating federal efforts and reaching consensus, in part because its member agencies have differing missions and perspectives. In addition, the Commission's own staff and funding resources are relatively small, and it has no legal authority to direct member agencies to reallocate resources or take other actions. To meet requirements of the Financial Literacy Act that it identify areas of overlap and duplication among federal financial literacy activities and evaluate the effectiveness of federal financial literacy materials, the Commission reviewed federal programs and resources and asked each agency to evaluate the effectiveness of its financial literacy materials. This process thus lacked the benefit of independent analysis by a disinterested third party. The Commission has taken some steps to promote public-private partnerships, such as sponsoring conferences and engaging in community outreach, but the

impact of these steps is unclear. Private and nonprofit financial literacy organizations we spoke to said that the Commission's actions had been useful but had little impact on their overall relationship with federal agencies and other entities. In addition, the Commission has not been as active in its efforts to promote partnerships and coordinate with state and local governments.

This report recommends first that the Secretary of the Treasury, in concert with other agency representatives of the Commission, incorporate into the national strategy a concrete definition for financial literacy and education; clear, specific goals, performance measures, and benchmarks; the actions needed to accomplish these goals; a description of the resources required; and a discussion of appropriate roles and responsibilities for federal agencies and others. Second, we recommend that the Commission conduct usability testing of and measure satisfaction with the My Money Web site. Third, we recommend that the Treasury Department, in conjunction with the Commission, provide that the review of duplication and overlap and the evaluation of federal materials are independent and do not rely solely on agencies' self-assessments. Finally, we recommend the Commission consider ways to expand upon current efforts to cultivate sustainable partnerships with nonprofit and private entities.

We provided a draft of this report to the Treasury Department, in its capacity as chair of the Commission. The department noted that the National Strategy for Financial Literacy is the nation's first such effort and, as such, its calls to action are appropriately substantive and concrete. We acknowledge that the national strategy represents a starting point but believe that future iterations of the strategy would benefit from inclusion of the characteristics cited in our report. The Treasury Department's response also said the department will consult with the Commission on addressing our recommendations related to clarifying the definition of financial literacy, improving the Web site, conducting an independent evaluation of federal activities, and cultivating additional partnerships.

## Background

According to the Financial Literacy and Education Improvement Act, the purpose of the Financial Literacy and Education Commission is to "improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education." The act states the Commission shall be composed

of the Secretary of the Treasury and the heads of 19 other federal departments and agencies and allows the President to appoint up to 5 additional members.[4] The Commission must hold one public meeting at least every 4 months; the Commission's first meeting was held in January 2004.

The act specifies certain areas the Commission shall emphasize—such as consumer awareness of budgeting, credit, investment, and banking—and requires the Commission to undertake certain activities, including

- providing not later than 18 months after the date of the first meeting of the Commission a report to Congress on the Commission's progress, which must include, among other things, a national strategy to promote financial literacy and education for all Americans;
- establishing and maintaining a financial education Web site to provide a coordinated point of entry for information about federal financial literacy education programs and grants;
- establishing a toll-free hotline available to the public seeking information about issues pertaining to financial literacy and education;
- identifying areas of overlap and duplication among federal financial literacy and education activities and coordinating federal efforts to implement the national strategy;
- assessing the availability, utilization, and impact of federal financial literacy and education materials; and
- promoting partnerships among federal, state, and local governments, nonprofit organizations, and private enterprises.

[4]Under the act, the agencies represented on the Commission are the Departments of Agriculture, Defense, Education, Health and Human Services, Housing and Urban Development, Labor, the Treasury, and Veterans Affairs; the Board of Governors of the Federal Reserve System; the Office of the Comptroller of the Currency; the Office of Thrift Supervision; the Federal Deposit Insurance Corporation; the National Credit Union Administration; the Securities and Exchange Commission; the Federal Trade Commission; the General Services Administration; the Small Business Administration; the Social Security Administration; the Commodity Futures Trading Commission; and the Office of Personnel Management. As of April 2006, the President had not appointed any additional members.

The act requires that the strategy be reviewed and modified as deemed necessary at least once a year. The act also requires the Secretary of the Treasury, after review of the Commission's recommendations, as part of the national strategy, to develop, implement, and conduct a pilot national public service multimedia campaign to enhance the state of financial literacy and education in the United States.

The Treasury Department's Office of Financial Education lends primary support to the Commission and coordinates its efforts. The office has assigned professional staff, equivalent to 2.5 staff years, to handle work related to the Commission. Three other agencies have detailed seven government employees for between 2 months and 2 years each at the Treasury Department to support the Commission between April 2003 and August 2006. The Commission has no independent budget. Most representatives of the Commission could not provide us with an estimate of the resources allocated to the Commission, most of which consisted of in-kind staff assistance. The act authorized appropriations to the Commission of "such sums as may be necessary" to carry out its work, and for fiscal year 2005 Congress specified that $1 million should be used for the development and implementation of the national strategy. Additional information on the Commission's budget and expenditures appears in appendix II.

## National Strategy Is Descriptive Rather Than Strategic, Limiting Its Value in Guiding the Nation's Financial Literacy Efforts

The National Strategy for Financial Literacy serves as a useful first step in focusing attention on financial literacy but is largely descriptive rather than strategic. The strategy is comprehensive, discussing many of the major issues and challenges in improving financial literacy and describing a variety of financial literacy initiatives in the government, nonprofit, and private sectors. However, its recommendations are presented as "calls to action" that generally do not include a plan for implementation and the strategy only partially addresses most of the characteristics—such as full discussion of performance measures, resource needs, and roles and responsibilities—that we have previously identified as desirable for any effective national strategy. As a result, most federal and nonfederal agencies we interviewed said that the national strategy was unlikely to affect their financial literacy and education efforts.

## The Commission Developed a National Strategy, but Difficulty Reaching Consensus Delayed Its Release

To develop the National Strategy for Financial Literacy, in May 2004, the Commission formed a national strategy working group of 13 member agencies.[5] According to a Treasury Department representative, the working group met 11 times and working group members provided background research and developed material for each of the strategy's chapters. The Financial Literacy Act called for the participation of state and local governments and private, nonprofit, and public institutions in the creation and implementation of the national strategy.[6] To help meet this requirement, the working group, through the Treasury Department, issued a request for public comment on the development of the strategy in a *Federal Register* notice that was released in August 2004.[7] The request generated approximately 158 public responses from a wide array of federal, state, and local government entities; private companies; nonprofit agencies; and individuals, including academics and private citizens. The working group also held six public meetings in February and March 2005 with individuals and organizations that had responded to the request for public comment. Each meeting was organized around a specific sector—commercial, government, nonprofit, education, and banking—with one for individuals. Commission documents stated that the working group had considered information and ideas from the participants of these meetings during the development of the national strategy.

Although the Financial Literacy Act required the Commission to adopt the strategy within 18 months after the date of the act's enactment, or June

[5]Financial Literacy and Education Commission, *Taking Ownership of the Future: The National Strategy for Financial Literacy* (Washington, D.C.: April 2006). The agencies represented on the national strategy working group were the Department of Defense, Department of Education, Department of Health and Human Services, Department of Labor, Department of the Treasury, Federal Deposit Insurance Corporation, Federal Reserve Board, Federal Trade Commission, General Services Administration, Office of the Comptroller of the Currency, Office of Personnel Management, Securities and Exchange Commission, and Social Security Administration.

[6]20 U.S.C. § 9703(f)(2)(A).

[7]69 *Fed. Reg.* 52538 (Aug. 26, 2004) (Department of the Treasury, "Comment Request for Financial Literacy and Education Commission National Strategy"). The notice specifically requested comments on (1) the three most important issues that the national strategy should address, (2) the existing resources that may be used to address those issues and how they could be employed, and (3) the best ways to improve financial literacy and education in the United States.

2005, the strategy was not publicly released until April 4, 2006.[8] The Commission sought unanimous consent on the national strategy, and Commission members told us that the difficulty of reaching consensus among all 20 member agencies had delayed the strategy. For instance, according to a Treasury Department official, some agencies disagreed about what the strategy should include, and some agency representatives had difficulties securing the approval of higher-level agency officials, who in some cases had objections. Some participants in the development of the national strategy told us that the process was generally collaborative and that they were given sufficient opportunity to provide input and review drafts of the strategy. Other participants told us that they believed that the working group was not always given ample opportunity to provide input into important issues, such as the strategy's overall direction, recommendations, or implementation. Many Commission representatives acknowledged that the Treasury Department faced a significant challenge in trying to get 20 federal agencies—each with its own mission and point of view—to unanimously agree to a strategy.

A particular source of disagreement among agencies was the issue of whether nonfederal entities should be cited by name in the strategy document. The national strategy includes numerous "illustrative programs" that provide examples of financial literacy initiatives in the private and nonprofit sector. According to a Treasury official, most Commission member agencies believed that these private and nonprofit entities should be cited by name, but some agencies did not. Specifically, two regulatory agencies that were part of the Commission said that a potential conflict of interest existed if they were perceived to be endorsing a program run by an entity that was potentially the subject of an enforcement action. To address these issues, the Commission decided to remove names of private and nonprofit sector organizations from the national strategy. After consultation with all Commission members, the organizations' names were included instead in a separate document issued

[8]The Financial Literacy Act required the National Strategy for Financial Literacy to be provided to Congress as part of a report issued by the Commission called the "Strategy for Assuring Financial Empowerment." U.S. Department of the Treasury, *Strategy for Assuring Financial Empowerment* (Washington, D.C.: Apr. 3, 2006). That report also contained other elements required by the act, including a survey and assessment of certain federal financial education materials and information on the activities and future plans of the Commission. 20 U.S.C. § 9703 (h)(2).

by the Treasury Department, the "National Strategy for Financial Literacy: Quick Reference Guide."[9]

## The National Strategy's Content Is Comprehensive but Largely Descriptive

The content of the National Strategy for Financial Literacy largely consists of a comprehensive overview of issues related to financial literacy, along with examples of ongoing initiatives. The strategy is organized into 13 chapters. Seven of these chapters cover subject areas for financial education, such as retirement saving, credit, and taxpayer rights, while three others focus on specific groups—students, the unbanked, and multilingual and multicultural populations.[10] There are also chapters on academic research and program evaluation, coordination efforts, and international initiatives. Most chapters provide a brief overview of the subject and the challenges the nation faces in addressing it, but most of the discussion involves "illustrative programs" that are already in place. These programs, of which the report discusses more than 80, are run by nonprofit organizations, academia, the private sector, and federal, state, and local governments. For example, the chapter on investor protection includes several pages describing specific resources and programs available through federal agencies and private entities.

The strategy is comprehensive in its scope. It describes many major problems and challenges related to financial literacy in America, identifies key subject matter areas and target populations, and describes what it believes to be illustrations of potentially effective practices in financial education across a broad spectrum of subjects and sectors. As such, the strategy represents a useful first step in laying out key issues and highlighting the need for improved financial literacy. At the same time, as some representatives of the Commission told us, the strategy is fundamentally descriptive rather than strategic—that is, it provides information on disparate issues and initiatives related to financial literacy but is limited in presenting a long-term plan of action for achieving its goal.

Most notably, the strategy's recommendations are presented as "calls to action," which it defines as concrete steps that should be taken for

[9]U.S. Department of the Treasury, *Quick Reference Guide to the National Strategy for Financial Literacy* (Washington, D.C.: Apr. 4, 2006).

[10]The term "unbanked" is widely used to describe individuals without transaction accounts at traditional financial institutions.

improving financial literacy and education in particular areas. Sixteen of these 26 calls to action are addressed to federal entities, 5 to private or nonprofit organizations, and 5 to the public at large. However, many of these calls to action are very general and do not discuss an implementation strategy, and others describe initiatives that already exist. For example, one call to action states "Investors should take advantage of the wealth of high quality, neutral, and unbiased information offered free of charge," but it does not lay out a plan for helping ensure that investors will do so. Among the ongoing initiatives cited are a multimedia campaign that the Treasury Department is to launch that is mandated in the Financial Literacy Act. Another call to action states that the Department of Health and Human Services "will continue its public awareness campaign on the new Medicare drug benefit that encourages seniors to enroll in the program."

## Certain Elements of an Effective National Strategy Are Lacking

We have previously identified a set of desirable characteristics for any effective national strategy.[11] While national strategies are not required to contain a single, consistent set of attributes, we found six characteristics that can offer policymakers and implementing agencies a management tool to help ensure accountability and more effective results. These six characteristics are (1) a clear purpose, scope and methodology; (2) a detailed discussion of problems and risks; (3) desired goals, objectives, activities, and performance measures; (4) a description of future costs and resources needed to implement the strategy; (5) a clear delineation of the government's roles, responsibilities, and mechanisms for coordination; and (6) a description of how the strategy is integrated with other entities. We found that the National Strategy for Financial Literacy generally addresses the first of these characteristics and partially addresses the other five (see table 1).

[11]GAO, *Combating Terrorism: Evaluation of Selected Characteristics in National Strategies Related to Terrorism*, GAO-04-408T (Washington, D.C.: Feb. 3, 2004).

**Table 1: Extent the National Strategy for Financial Literacy Addresses GAO's Desirable Characteristics of an Effective National Strategy**

| Desirable characteristic | Generally addresses | Partially addresses | Does not address |
|---|---|---|---|
| Clear purpose, scope, and methodology | X | | |
| Detailed discussion of problems and risks | | X | |
| Desired goals, objectives, activities, and performance measures | | X | |
| Description of future costs and resources needed | | X | |
| Organizational roles, responsibilities, and coordination | | X | |
| Description of integration with other entities | | X | |

Source: GAO analysis of the National Strategy for Financial Literacy

## Clear Purpose, Scope, and Methodology

An effective strategy describes why the strategy was produced, the scope of its coverage, and how it was developed. A complete description of the purpose, scope, and methodology can make a document more useful to the implementing entities as well as to oversight organizations such as Congress. The National Strategy for Financial Literacy generally addresses this characteristic. It cites the legislative mandate that required the strategy, the overall purpose—improving financial literacy and education in the United States—and subsidiary goals such as making it easier for consumers to access financial education materials. A related document also discusses in detail the steps the Commission took to develop the strategy, including descriptions of working group meetings, the sector-specific meetings, and the notice for public comment.

The strategy's foreword discusses its scope and defines key concepts, such as the document's "calls to action" and "illustrative programs." The Financial Literacy Act does not specifically define "financial literacy" or "financial education." However, the act does specify a detailed and wide-ranging list of the elements that the Commission should emphasize—such as budgeting, saving, managing credit, understanding financial products, avoiding abusive lending, understanding investments—which the strategy

discusses.[12] Thus, while the strategy does generally have a clear purpose, scope, and methodology, it might benefit additionally by providing its own concrete definition for financial literacy and education, which would help define the scope of the Commission's work.

Detailed Discussion of Problems and Risks

A strategy with this characteristic provides a detailed discussion or definition of the problems the strategy intends to address, their causes, and the risks of not addressing them. Based on our review, the National Strategy for Financial Literacy partially addresses this characteristic. The strategy identifies specific problems that indicate a need for improved financial literacy. For example, the chapter on general saving provides data on the decline in the personal saving rate over the last 35 years, and the chapter on consumer protection cites an estimate on the percentage of American adults who are scammed every year. The strategy also discusses some of the causes for these problems. For example, the chapter on education notes that teachers are often not prepared to teach financial education and do not know about available educational materials and curricula.

While the strategy does address many key problems and risks, it might benefit further from a fuller discussion of the long-term risks—to both individual families' well-being and the broader national economy—that may be associated with poor financial literacy. Moreover, a clear understanding of our nation's overall financial condition and fiscal outlook is an indispensable part of true financial literacy. Due to current demographic trends, rising health care costs, and other factors, the nation faces the possibility of decades of mounting debt, which left unchecked will threaten our economic security and adversely affect the quality of life available to future generations.[13] One element of financial literacy is ensuring that Americans are aware of these potential developments in planning for their own financial futures since, for example, we can no longer assume that current federal entitlement programs will continue

[12]For example, the statute states that the Commission shall emphasize elements including how to "create household budgets, initiate savings plans, and make strategic investment decisions for education, retirement, home ownership, wealth building, or other savings goals" and "increase awareness of the availability and significance of credit reports and credit scores in obtaining credit, the importance of their accuracy (and how to correct inaccuracies), their effect on credit terms, and the effect common financial decisions may have on credit scores." 20 U.S.C. § 9703(a)(2).

[13]For example, see GAO, *The Nation's Long-Term Fiscal Outlook: September 2006 Update*, GAO-06-1077R (Washington, D.C.: Sept. 15, 2006).

indefinitely in their present form. The federal government has sought to encourage personal saving through policies such as tax incentives, but the effect of these policies on the overall level of personal saving is uncertain—highlighting further the importance of public education in raising our national saving rate and ensuring that Americans enjoy a secure retirement.[14]

Desired Goals, Objectives, Activities, and Performance Measures

This characteristic deals with what goals a strategy strives to achieve and the steps needed to meet those goals, as well as milestones and outcome measures to gauge results. The National Strategy for Financial Literacy partially addresses these characteristics. The strategy does identify and discuss four strategic areas needed to improve financial literacy—building public awareness of available resources; developing tailored, targeted materials and dissemination strategies; tapping into public-private and private-private partnerships; and doing research on and evaluating financial education programs. As discussed earlier, it also includes the 26 calls to action that, although often lacking detail, provide a picture of the types of activities the strategy recommends.

However, in general, the strategy neither sets clear and specific goals and subordinate objectives for what it seeks to achieve, nor does it set priorities or performance measures for assessing progress. Several stakeholders in the financial literacy community that we spoke with noted that the strategy would have been more useful if it had set specific performance measures. The Commission might also have set measurable goals for changing consumer behavior, such as seeking to reduce the number of Americans without bank accounts or increase the number saving for their retirement to a specified figure in the next 5 or 10 years. Without performance measures or other evaluation mechanisms, the strategy lacks a good means of measuring its progress and holding relevant players accountable.

A Treasury Department official told us that the Commission would be tracking the implementation of the "calls to action," many of which represent tangible activities. He said that the department, in coordination with the Commission, may also track overall statistical measures that can serve as a gauge to the nation's financial literacy. He also noted that it would be difficult to attribute the particular effect the national strategy

[14]GAO, *National Saving: Current Saving Decisions Have Profound Implications for Our Nation's Future Well-Being*, GAO-06-628T (Washington, D.C.: Apr. 6, 2006).

has had on statistics like the national saving rate, because so many variables affect them. While we recognize this difficulty, we believe the Commission should lay out a more concrete process for monitoring and reporting on its progress. Behavior-related outcome measures would serve as more effective overall indicators of the progress the nation—and by extension the Commission—is making in addressing financial literacy.

Description of Future Costs and Resources Needed

This characteristic describes what a strategy will cost, the sources and types of resources needed, and where those resources should be targeted. The financial literacy strategy partially addresses this characteristic. In general terms, the strategy discusses the types of resources that are available from different sectors, including the federal and state governments, private companies, and community organizations. The Quick Reference Guide that accompanies the strategy provides a list of these resonrces along with their Web sites and contact information.

However, the strategy does not address fundamental qnestions about the level and type of resources that are needed to implement the national strategy. No cost estimate is provided either for the strategy as a whole or for specific initiatives or activities. The strategy also does little to acknowledge or discuss how funding limitations could be a challenge to improving financial literacy and offers little detail on how existing resources could best be leveraged—an issue raised by some organizations in their public comment letters on the strategy. Moreover, the strategy also does not discuss where resources should be targeted. For example, it does not identify the sectors or populations most in need of additional resources. The strategy also might have included more discussion of how various "tools of government" such as regulation, standards, and tax incentives might be used to stimulate nonfederal organizations to use their unique resources to implement the strategy. Without a clear description of resource needs, policymakers lack information helpful in allocating resources and directing the strategy's implementation.

Organizational Roles, Responsibilities, and Coordination

This characteristic deals with which organizations will implement a strategy and describes their roles and responsibilities, as well as mechanisms for coordinating their efforts. The National Strategy for Financial Literacy partially addresses these issues. It discusses the involvement of various sectors—including the federal government, state and local governments, private companies, nonprofit and community organizations, academia, and private individuals—in seeking to improve financial literacy. It also discusses, in very general terms, the roles of the government in relation to the private sector and individuals. In addition, some of the strategy's calls to action identify specific agencies that will or

should implement certain tasks or initiatives. As discussed later in this report, the national strategy also includes a chapter on interagency coordination and a discussion of the need for public-private partnerships.

The strategy is not specific about roles and responsibilities. For example, it does not advocate new approaches for the federal government's role in promoting financial literacy or recommend changes in the roles of individual agencies. Addressing these issues more fully is important given our prior work that discussed the appropriate federal role in financial literacy in relation to other entities and the potential need to streamline federal efforts in this area.[15] In addition, the strategy generally does not clarify implementing organizations' relationships in terms of leading, supporting, and partnering. The nongovernmental sector plays a significant role in financial education. While the strategy does emphasize the importance of coordination and partnership—and cites existing examples of such efforts—it is limited in identifying or promoting specific processes for coordination and collaboration between sectors and organizations. The lack of a detailed discussion of roles and responsibilities may serve as a barrier to conducting a coordinated and clearly defined implementation plan and to ensuring that sufficient accountability exists.

Description of Integration with Other Entities

This characteristic addresses how a national strategy relates to other federal strategies' goals, objectives, and activities. A strategy might also discuss, as appropriate, various strategies and plans produced by the state, local, private, or international sectors. The National Strategy for Financial Literacy partially addresses this characteristic. It does identify and describe a few plans and initiatives of entities in the federal and private sectors, and it includes a chapter describing approaches within other nations and international efforts to improve financial education. However, the strategy is limited in identifying linkages between itself and these initiatives, and it does not address how it might integrate with the overarching plans and strategies of these state, local, and private sector entities. As a result, the strategy may be less effective in marshalling and leveraging the abilities and resources that exist outside of the federal government.

[15]GAO-05-93SP, pp. 5-8.

## The Impact of the National Strategy May Be Limited

Because the National Strategy for Financial Literacy is more of a description of the current state of affairs than an action plan for the future, its effect on public and private entities that conduct financial education may be limited. We asked several major financial literacy organizations how the national strategy would affect their own plans and activities, and the majority said it would have no impact at all. Similarly, few federal agencies that we spoke with could identify ways in which the national strategy was guiding their own work to address financial literacy. Most characterized the strategy as a description of their existing efforts.

A Treasury Department official noted to us that the national financial literacy movement is still in its early stages and that the Commission itself is a relatively new entity. As such, he said, the national strategy—which is to be reviewed at least annually—was intended largely as an initial step to call attention to the issue of financial literacy, identify the key issues involved, and survey the landscape of current financial literacy efforts. He said that subsequent versions of the strategy may look different as the Commission's efforts evolve. A supplement to the national strategy states that the initial strategy was intended to be a blueprint that is firm enough to give general direction but flexible enough to allow different players to choose their own roles in enhancing financial education. An official noted that the goal of many of the strategy's calls to action is to construct a base of knowledge and a consensus among key players. Thus, many of the calls to action involve conferences and other meetings, which he said are intended to bring players from a variety of sectors together so as to build a foundation of understanding and agreement. These meetings and discussions, the official said, are not in lieu of more precise recommendations, but rather a prerequisite to them.

## Web Site and Telephone Hotline Offer Financial Education Information from Federal Agencies

The Commission's My Money Web site serves as a portal to more than 260 other federal financial education sites, and representatives of financial literacy organizations generally told us that the site served its purpose effectively. Use of the Web site has been growing, though due to resource constraints and competing priorities, the site has not yet implemented certain best practices recommended for federal public Web sites, such as testing for usability and measuring customer satisfaction. As a result, the Commission does not know if visitors are able to find the information they are looking for efficiently and effectively. The volume of calls to the Commission's telephone hotline—which serves as an order line for a free "tool kit"—has been limited, possibly because of a lack of publicity. To meet a Financial Literacy Act requirement for conducting a public service multimedia campaign, the Treasury Department has contracted with the

Advertising Council to develop and implement a campaign focusing on credit literacy among young adults.

## Financial Education Web Site Offers Links to Federal Resources

The Financial Literacy Act required the Commission to establish and maintain a Web site to serve as a clearinghouse and provide a coordinated point of entry for information about federal financial literacy and education programs, grants, and materials. To implement this requirement, in January 2004, the Commission created a Web site subcommittee that was chaired at the time by the Commodity Futures Trading Commission. According to Treasury Department representatives, 17 member agencies serve on the subcommittee. In October 2004, the My Money Web site (www.MyMoney.gov) was launched in both an English- and a Spanish-language version. As of July 2006, the subcommittee had met two times in person and had communicated through e-mail and teleconference during the process of developing and updating the Web site. Members of the Web site subcommittee told us the working relationship on the subcommittee was collaborative. Members of the Web site subcommittee have credited the General Services Administration (GSA) with providing much of the staff time and resources to implement the Web site. GSA's Federal Citizen Information Center hosts the Web site and provides most of its technical support. According to GSA representatives, as of August 2006, 14 GSA staff members had spent about 4,000 staff hours to support the Commission's activities, including the Web site. Other agencies told us that they have not tracked the amount of staff time they have devoted to the Web site. Agencies have primarily supported the Web site through in-kind contributions in the form of staff time, although GSA has provided additional resources by covering the costs to host and maintain the site. The Web site has not received a specific appropriation and Treasury representatives said they do not anticipate requesting dedicated funding for it.

### Web Site Serves as a Portal to Other Federal Sites

The My Money Web site serves as a "cross-agency portal"—that is, a gateway that gathers information and services from multiple federal agencies—and consists largely of links to financial literacy and education Web sites maintained by Commission member agencies. Updated in January 2006 and again in October 2006, the English-language version of the My Money Web site now has more than 260 links. These links are

organized around 12 topics.[16] For example, under "financial planning" consumers can find links to about a dozen Web resources, including a site on building wealth from the Federal Reserve Bank of Dallas and a site on finances for young adults from the Federal Deposit Insurance Corporation (FDIC). The Web site also includes an interactive money quiz, information about the Commission, and the National Strategy for Financial Literacy. The Spanish-language version of the Web site includes about 40 links to Spanish-language financial education materials provided by federal agencies. Many representatives of financial literacy initiatives and organizations that we spoke to in the private and nonprofit sectors were generally satisfied with the Web site, saying that it provided a clear and useful portal for consumers to federal financial education materials.

With the exception of the interactive quiz, the Commission did not create any original content for the My Money Web site, but instead sought to coordinate existing federal agency financial education materials. As such, the Web site was largely intended to help market and distribute existing federal financial literacy resources to a wider audience. The Web site subcommittee also chose to limit the site's content, in most cases, to Web sites that are maintained or operated by federal agencies. Although the Financial Literacy Act allowed links to nonfederal sites if the sites have no commercial content, the Web site subcommittee decided it wanted to ensure the integrity of the site by limiting it to information offered by federal agencies.[17] The Financial Literacy Act required that the Web site offer information on all federal grants to promote financial literacy and education, and on how to target, apply for, and receive such grants.[18] A

[16]The topic areas are Budgeting and Taxes; Credit; Financial Planning; Home Ownership; Kids; Paying for Education; Privacy, Fraud & Scams; Responding To Life Events; Retirement Planning; Saving and Investing; Starting a Small Business; and Financial Education Grants.

[17]An exception was made for certain financial education sites maintained by colleges and universities affiliated with the U.S. Department of Agriculture's Cooperative State Research Education and Extension Service, as well as sites affiliated with the Federal Reserve Board.

[18]20 U.S.C. § 9703(b)(2)(C).

section on federal financial education grants was added to the site in October 2006, which includes links to four grant programs.[19]

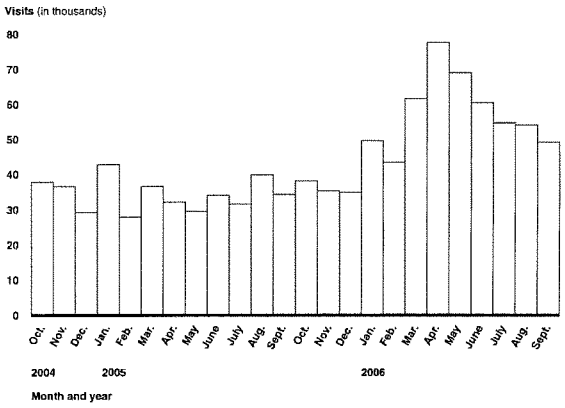
## Use of the Web Site Is Growing

From its inception in October 2004 through September 2006, the My Money Web site has received approximately 1,041,000 visits.[20] The site received an average of 35,000 visits per month during the first 6 months after its introduction in October 2004. As shown in figure 1, use of the site has increased since that time, reaching a peak of 78,000 visits in April 2006, when the Commission and the Web site received publicity associated with the release of the national strategy. From May through September 2006, the site averaged about 57,000 visits per month. GSA tracks and the Commission reports monthly performance metrics, including the number of Web page views for both the English and Spanish versions of the Web site and the number of downloads of the national strategy. However, the Commission has not formulated specific goals or performance measures for the Web site.

[19]The four federal grant programs cited on the Web site as of October 2006 were the Department of Education's Excellence in Economic Education program, Department of Health and Human Services' Assets for Independence program, Department of Housing and Urban Development's Housing Counseling program, and National Credit Union Administration's Community Development Revolving Loan Fund program.

[20]A "visit" is defined as all the activity of one visitor to a Web site within a specified period, usually 30 minutes. Because federal government Web sites are generally prohibited from using "cookies" (small files stored on a visitor's computer that can contain identifying information about the visitor), the number of unique visitors to the My Money Web site cannot be counted. Thus, data on total number of visits do not represent the number of users who have visited the Web site because some users may visit the site multiple times. According to a GSA official, because unique visitors cannot be counted, the best measure of the Web site's usage is number of visits.

**Figure 1: My Money Web Site Usage, Fiscal Years 2005-2006**




Source: GSA

The number of visits to the My Money Web site has been roughly comparable to some recently launched private Web sites that provide financial education. For example, in fiscal year 2006, the My Money Web site received approximately 628,000 visits. During that same time period, the Employee Benefit Research Institute's "Choose to Save" Web site, the American Institute of Certified Public Accountants' "360 Degrees of Financial Literacy" Web site, and the National Endowment for Financial Education's "Smart about Money" Web site received, respectively, 1,538,000, 437,000, and 229,000 visits.[21]

[21]The Employee Benefit Research Institute's Choose to Save Web site (www.choosetosave.org) was introduced in 1997. The American Institute of Certified Public Accountants launched its 360 Degrees of Financial Literacy Web site (www.360financialliteracy.org) in October 2004, and the National Endowment for Financial Education launched its Smart about Money Web site (www.smartaboutmoney.org) in September 2005. We used equivalent definitions of "visits" for all of these sites. Data on the number of visits to these sites were provided by the organizations that sponsored them; we did not independently verify these data.

The number of visits to other federal sites that serve as cross-agency portals varies. Kids.gov, a gateway to federal sites for children, received about 1.9 million visits during fiscal year 2006. Consumeraction.gov, which serves as a portal for consumers seeking advice and information on how to solve consumer problems, received 1.3 million visits during the same period. While the purposes of these portals differ from the My Money Web site, they give some measure of the volume of usage by federal portals. Some representatives of financial literacy organizations we spoke with said that the Commission should do more to promote public awareness of the Web site. Commission representatives noted that the Commission has taken several steps to promote the site. For example, in April 2006, the Treasury Department and GSA funded a promotional effort that printed the My Money Web site address on envelopes containing federal benefits and tax refunds. The Commission has also encouraged attendees at its public meetings to link to the site, and the site invites visitors to copy and paste a specially designed logo as a means to link to the site.

## The Commission Has Not Yet Tested Web Site for Usability or Measured Customer Satisfaction

The Web site subcommittee has not yet conducted usability tests or measured customer satisfaction—steps recommended as best practices for federal agency public Web sites—for the My Money Web site. Representatives of GSA, which operates the site, acknowledge that these steps are standard best practices that would be useful in improving the site. However, they said they had not yet been done due to competing priorities and a lack of funding and that there are no plans to conduct these steps in the near future.[22] Without usability testing or measures of customer satisfaction, the Commission does not know whether the Web site's content is organized in a manner that makes sense to the public, or whether the site's visitors are able to find the information they are looking for efficiently and effectively.

The federal government's Web Managers Advisory Council provides guidance to help federal Web managers implement recommendations and

[22]According to a usability specialist from GSA, it might cost roughly $10,000 to $15,000 for a basic usability study with eight participants and recommendations for redesign of the site. Representatives of the Department of Health and Human Services told us it might be able to offer the Commission use of its Web testing lab at no charge, which would reduce the cost of usability testing.

best practices for their federal sites.[23] The council recommends testing usability and measuring customer satisfaction to help identify improvements and ensure that consumers can navigate the sites efficiently and effectively. Usability testing typically involves having users perform a variety of tasks with a prototype Web site while observers record notes on what each user does and says. Testing may include collecting data on how users do tasks, what kinds of errors they make, when and where they are confused or frustrated, how fast they do a task, whether they succeed in doing it, and how satisfied they are with the experience. Measuring customer satisfaction provides an indication of whether consumers find a Web site useful, may return to the site, and may recommend the site to others. According to the council, organizations can measure customer satisfaction through online surveys, e-mail feedback, phone calls, letters, and other contacts with the public, such as focus groups.[24]

The Web Managers Advisory Council also recommends that federal Web sites have a page entitled "Contact Us," or something similar, that provides visitors with the organization's mailing and e-mail addresses so that they can ask questions, get information, or report problems. The Commission added an "E-mail Us" link to the site in October 2006, 2 years after its launch, but the link is for addressing "technical issues." Commission representatives told us they are still in the process of identifying an appropriate point of contact for the Web site that would be needed to effectively respond to consumers' questions and concerns. A Treasury Department official noted that visitors can contact individual federal agencies, whose Web sites are provided on the My Money Web site.

## Telephone Hotline Offers Consumers Free Tool Kit

The Financial Literacy Act required that the Commission establish a toll-free telephone number for members of the public seeking information related to financial literacy.[25] In January 2004, the Commission created a

[23]The Web Managers Advisory Council is an interagency group of about 40 senior Web managers from every cabinet-level agency, several independent agencies, and the judicial and legislative branches. In 2004, the council recommended policies and guidelines for all federal public Web sites. See: Interagency Committee on Government Information, *Recommended Policies and Guidelines for Federal Public Websites*, submitted to the Office of Management and Budget (Washington, D.C.: June 9, 2004).

[24]Many federal agencies and organizations in the private sector use the American Customer Satisfaction Index online survey to measure customer satisfaction with their Web sites. According to a GSA official, it costs federal agencies about $25,000 a year to participate in the survey.

[25]20 U.S.C. § 9703(c).

hotline subcommittee of five member agencies and chaired by the FDIC.[26] The Commission launched the telephone hotline, 1-888-My Money, simultaneously with the My Money Web site in October 2004. The hotline supports both English- and Spanish-speaking callers. A private contractor operates the hotline's call center and GSA's Federal Citizen Information Center oversees the operation and covers its cost. According to GSA, the cost of providing telephone service for the hotline was about $28,000 in fiscal year 2006.

### Tool Kit Is a Collection of Publications from Multiple Agencies

The hotline serves as an order line for obtaining a free financial literacy "tool kit"—that is, a collection of pamphlets and booklets from various federal agencies on topics such as saving and investing, deposit insurance, and Social Security. As shown in table 2, as of April 2006, the tool kit consisted of eight publications provided by six federal agencies. The tool kit is available in English- and Spanish-language versions, and consumers can order it via the My Money Web site or the hotline. Representatives of the hotline subcommittee told us that initially they had planned to expand the scope of the hotline—for example, by providing information and referrals. However, funding was not available for the additional training that providing these services would have required.

[26]Other members of the hotline subcommittee include the Department of the Treasury, Department of Health and Human Services, GSA, and the Office of Thrift Supervision.

**Table 2: Contents of My Money Tool Kit as of April 2006**

| Agency | Title of publication | Description |
|---|---|---|
| Commodity Futures Trading Commission | *Foreign Currency Fraud* | One-page brochure offering consumers advice on how to avoid foreign currency market fraud. |
| Department of Labor | *Savings Fitness: A Guide to Your Money and Your Financial Future* | Twenty-nine-page booklet on creating a personal savings plan and preparing for retirement. |
| FDIC | *Insuring Your Deposits* | One-page brochure explaining FDIC deposit insurance. |
| | *Money Smart: An Adult Education Program* | One-page brochure explaining "Money Smart," an FDIC training program designed to help adults outside the financial mainstream enhance their money skills. |
| GSA | *Consumer Information Catalog* | Sixteen-page booklet listing free and low-cost government publications covering a variety of topics, including financial topics. |
| Securities and Exchange Commission | *Get the Facts on Saving and Investing* | Thirty-two-page booklet covering the basics of saving and investing. |
| | *Ask Questions: Questions You Should Ask About Your Investments* | One-page brochure on buying and monitoring investment products. |
| Social Security Administration | *Social Security: Understanding the Benefits* | Twenty-one-page booklet explaining the basics of the Social Security retirement, disability, and survivors insurance programs. |

Source: GAO

Note: Most publications are available in both English and Spanish. The contents of the tool kit have changed over time subject to the availability of publications supplied by agencies.

According to GSA officials, agencies that currently contribute materials to the tool kit have signed a memorandum of understanding outlining how expenses are to be shared. Each agency pays for the production and distribution costs of the publications it provides to the tool kit. GSA's Federal Citizen Information Center distributes publications on behalf of agencies from the Government Printing Office facility in Pueblo, Colorado, and agencies reimburse GSA for all costs associated with order receipt, processing, and mailing. According to GSA, as of September 30, 2006, agencies incurred approximately $688,000 in costs for having GSA distribute publications in the tool kit. According to representatives of the hotline subcommittee, other Commission agencies were invited to provide publications for the tool kit, but they declined to participate. Representatives of some Commission member agencies told us that they

lacked the funds to provide publications for the tool kit or that their limited resources for financial education efforts would be better spent elsewhere. As a result, the tool kit does not currently include publications on certain major financial issues, such as homeownership and credit.

## Telephone Hotline's Call Volume Has Been Limited

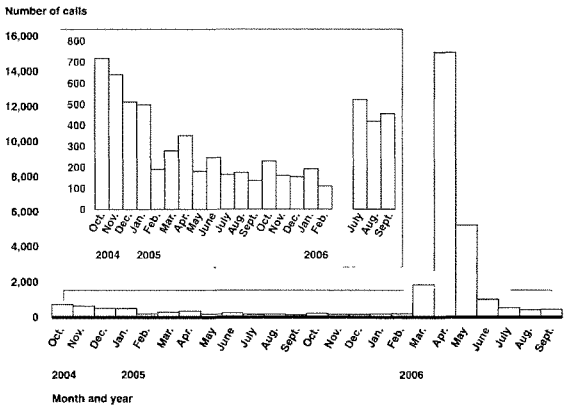
The volume of calls to the My Money telephone hotline has been limited—453 calls in September 2006 and an average of about 200 calls per month between February 2005 and February 2006. This call volume is considerably lower than other federal toll-free hotlines used for ordering publications that GSA's Federal Citizen Information Center supports. For example, according to GSA, in fiscal year 2006, the Federal Citizen Information Center's hotline for ordering printed information from the Government Printing Office facility in Pueblo, Colorado (1-888-8-Pueblo), and the Department of the Interior's Fish and Wildlife Service hotline for requesting publications and handling general information about the agency's programs and services (1-800-344-WILD) received, respectively, an average of about 16,500 and 3,600 calls per month in fiscal year 2006.[27] While the purposes of these hotlines differ from the My Money hotline, and they have been in existence longer, they give some measure of the volume of usage of federal toll-free hotlines used for requesting publications. As shown in figure 2, calls to the My Money hotline generally declined from its inception in October 2004 through February 2006. Calls spiked markedly in April 2006 because of a marketing effort that month that put the hotline's telephone number on millions of envelopes containing federal tax refund and government benefit checks. However, GSA representatives told us that the overwhelming majority of consumers who called the hotline during that period did not order a tool kit; instead they had called because they erroneously believed the hotline operator could answer inquiries about the checks they had received. Figure 2 shows that call volume has decreased from a peak of about 15,000 calls in April 2006 to 453 calls in September 2006. According to a GSA official, a hotline's call volume depends largely on the promotional efforts associated with it.

Some representatives of the Commission commented that call volume to the hotline has been low and attributed this to limited promotion of the hotline. A Treasury Department representative noted that, as with the Web site, the Commission had taken several steps to promote the hotline. These have included printing the hotline's telephone number on envelopes

[27] According to GSA, data on call volume include calls serviced by a live agent or handled by automation but do not include calls that were abandoned.

containing federal benefits and tax refunds, and publicizing the hotline at public meetings and other financial literacy events across the country.

**Figure 2: My Money Hotline Call Volume, Fiscal Years 2005-2006**




Source: GAO analysis of GSA data

Note: Our analysis of the number of calls to the My Money hotline is based on reports provided by the private contractor that operates the hotline's call center and includes calls received by automation, calls abandoned, and calls received by operators, in both English and Spanish. Of those calls received by an operator, about 12 percent were conducted in Spanish. Data were not available on the percentage of calls received by automation that were conducted in Spanish.

Consumers ordered many more tool kits from the My Money Web site than they did through the hotline. About 93 percent of the approximately 107,000 tool kit orders in fiscal years 2005 and 2006 were submitted through the Web site, with the remainder submitted through the hotline.[28] Spanish-language tool kits represented about 3 percent of the total number, and about 30 percent of them were ordered through the hotline. Representatives of a Hispanic advocacy organization told us that the

[28]Because a consumer may request up to three tool kits when submitting an order, the number of tool kit orders does not equal the number of tool kits distributed.

hotline might be an important venue for Hispanic consumers because many of them lack access to the Internet. The overall number of tool kit orders has been declining slightly over the past year, falling from about 60,000 in fiscal year 2005 to 47,000 in fiscal year 2006. This decline may be in part the result of the limited publicity the tool kit has received. GSA sometimes partners with media outlets, such as *Parade Magazine*, to promote federal consumer publications. However, GSA officials said that they have not heavily promoted the My Money tool kit because budget considerations at the agencies providing publications have limited the supply of tool kits available.

## Credit Literacy Campaign to Target Young Adults

As part of the national strategy, the Financial Literacy Act required the Secretary of the Treasury to develop, implement, and conduct a pilot national public service multimedia campaign to enhance the state of financial literacy in the United States.[29] The act also required the Treasury Department to develop measures to evaluate the campaign's effectiveness. The act authorized to be appropriated $3 million for the development, production, and distribution of the campaign for fiscal years 2004, 2005, and 2006. The conference report accompanying the fiscal year 2005 appropriation for the Treasury Department's Departmental Offices, Salaries, and Expenses account specified that $1 million should be used to promote basic financial literacy and education.[30] The department allocated $750,000 of this to support the multimedia campaign conducted as part of the national strategy.

The department chose to focus the multimedia campaign on credit literacy among young adults. Treasury representatives told us that they chose this topic based on feedback received from the sector-specific meetings and because credit literacy is an essential part of overall financial literacy. Further, they noted that the act that created the Commission was a component of the Fair and Accurate Credit Transactions Act, which addresses credit issues. The focus on young adults was due, in part, to findings of a survey we conducted that found that younger consumers

[29]20 U.S.C. § 9707.

[30]H.R. Conf. Rep. No. 108-792, at 1443 (2004). The conference report stated that it retains the Senate provision specifying "$1,000,000 to promote basic financial literacy and education." More specifically, the Senate Committee on Appropriations, in S. Rep. No. 108-342, 126 (2004), specified "$1,000,000 to be used for the development and implementation of the national strategy to promote basic financial literacy and education among all American consumers."

were significantly less knowledgeable about credit reporting issues.[31] The department has contracted with the Advertising Council to develop and implement the multimedia campaign, which is expected to be advertised—using donated air time and print space—on television and radio, in print, and online.[32] The campaign is currently in the development stages, and Advertising Council representatives said that they expected to distribute it to media outlets by the spring of 2007. The campaign will also promote the My Money Web site and hotline. The Advertising Council said that it expects to use standard tools to evaluate the campaign's impact. These include measuring the dollar value of the media resources donated to the campaign, surveying consumers' attitudes and behaviors before and after its implementation, and monitoring the use of the Web site and hotline.

## The Commission Has Taken Steps to Coordinate Federal Agencies' Efforts and Promote Partnerships but Faces Challenges

The Commission has helped coordinate federal financial literacy efforts by, among other things, bringing together federal agencies on a regular basis and centralizing information from multiple federal agencies through its Web site and hotline. Further, its national strategy discusses the need for coordination among federal agencies, and several of the calls to action involve interagency efforts. However, the Commission has sometimes had difficulty reaching consensus among its 20 participating federal agencies, which have different missions and perspectives. Moreover, the Commission's own staff and funding resources are relatively small, and it has no legal authority to require agencies to redirect their resources or take other actions. Steps to promote public-private and private-private partnerships have included sponsoring or facilitating conferences and symposiums, but the impact of these actions is unclear, and the Commission has not been as active in working with state and local governments.

### Coordinating Multiple Federal Agencies Has Been Challenging

The Financial Literacy Act required that the Commission develop a plan to improve coordination of federal financial literacy and education activities and identify areas of overlap and duplication among these activities. Treasury Department and member agency representatives, as well as

[31]GAO-05-223.

[32]The Advertising Council (commonly known as the Ad Council) is a private, nonprofit organization that produces, distributes, and promotes public service campaigns on behalf of nonprofit organizations and government agencies.

Commission documents, have cited a number of the Commission's activities as having helped coordinate financial literacy efforts within the federal government, such as the following:

- *Formal and informal meetings.* The Commission created a single focal point for federal agencies to come together on the issue of financial literacy and education. Some representatives noted that the Commission's meetings—including formal public, working group, and subcommittee meetings—have helped foster interagency communication and information sharing that had previously been lacking.

- *Web site.* As we have seen, the My Money Web site, developed through an interagency subcommittee, serves as a single portal for federal financial literacy and education resources. The Web site centralizes all Web-based federal financial education resources, making it easier for consumers to find this information.

- *Hotline and tool kit.* The My Money hotline allows consumers, particularly those who do not use the Internet, to access printed financial literacy materials from multiple federal agencies.

- *National strategy.* The national strategy includes a chapter on federal interagency coordination that outlines steps the Commission has taken and discusses the FDIC's Money Smart education program, which multiple federal agencies have used. Several of the strategy's calls to action involve interagency efforts, including joint conferences and other initiatives.

In addition, to meet a requirement of the Financial Literacy Act that the Commission identify and propose means of eliminating areas of overlap and duplication, the Commission asked federal agencies to provide information about their financial literacy activities. After reviewing these resources, the Commission said it found minimal overlap and duplication among federal financial literacy programs. It noted that even when different agencies' programs appeared similar, closer inspection revealed important differences in things like the target audience, delivery platform, or specific content. As a result, the Commission did not propose the elimination of any federal activities. The national strategy includes a call to action that the Treasury Department and GSA will conduct a similar survey of overlap and duplication every 6 months.

To meet a requirement of the act that it assess the availability, utilization, and impact of federal financial literacy materials, the Commission asked each agency to evaluate the effectiveness of its own materials and programs. The Commission reported that each agency deemed its

programs and resources to be effective and worthy of continuance. However, rather than using an unbiased evaluator, the agencies assessed their own programs, which did not benefit from the use of independent third-party analysis. Moreover, given the large number of federal agencies involved in financial literacy, a concerted effort to streamline federal efforts is essential. As we have reported, in 2004, about 20 different federal agencies operated about 30 different programs or initiatives related to financial literacy. The federal government's effort in this area could potentially benefit by focusing federal financial literacy resources on those agencies with the most expertise and best track records.[33]

The Commission has faced several challenges in coordinating the efforts of the 20 federal agencies that form the Commission. In prior work, we have identified barriers to coordinating programs and initiatives across the federal government, including competing missions, concerns about protecting resources, and a lack of clearly articulated roles and responsibilities.[34] These barriers may have affected the Commission's efforts to coordinate federal programs. Each of the Commission's participating federal agencies has different missions and responsibilities and thus different perspectives and points of view on issues of financial literacy. In addition, the agencies differ in their levels of responsibility and expertise with regard to financial literacy and education. A Treasury Department official stated that the extent to which senior policymakers from the Commission's member agencies were involved in activities and decision making varied. In addition, because agencies tend to be protective of their resources, it might be very difficult to recommend eliminating individual agencies' programs.

Moreover, the Commission's ability to coordinate such major structural change, if it chose to do so, would also be constrained by its limited resources in terms of both staff and funding. Further, the Commission has no legal authority to compel an agency to take any action but instead must work through collaboration and consensus. According to Treasury Department representatives, early on, the Commission decided that decisions on major matters would require consensus, making efforts to

[33]GAO-05-93SP, p. 8.

[34]GAO, *Managing for Results: Barriers to Interagency Coordination*, GAO/GGD-00-106 (Washington, D.C.: Mar. 29, 2000), and GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

coordinate agencies' efforts more challenging. For example, as discussed earlier, the agencies disagreed about whether nonfederal organizations should be cited by name in the national strategy. Although the issue was ultimately resolved, the dispute contributed to the 10-month delay in the release of the strategy. Given these various constraints, a Treasury Department official told us that the Commission saw its role as improving interagency communication and coordination rather than consolidating federal financial education programs or fundamentally changing the existing federal structure.

## The Commission Has Taken Steps to Promote Partnerships, but the Impact of These Efforts Is Unclear

Partnerships between federal agencies and private sector organizations are widely seen as essential to making the most efficient use of scarce resources, facilitating the sharing of best practices among different organizations, and helping the federal government reach targeted populations via community-based organizations.[35] The Financial Literacy Act charged the Commission with promoting partnerships between federal agencies and state and local governments, nonprofit organizations, and private enterprises. Treasury Department officials have cited several steps the Commission has taken to promote such partnerships:

- *National strategy.* The national strategy highlighted public-private and private-private partnerships as one of the crucial areas that an effective national strategy must encompass. Treasury Department representatives noted that several of the strategy's calls to action sought to promote partnerships by bringing together the public and private sectors at both the local and national levels. For example, one call to action stated that the Treasury and Education departments would host a summit, scheduled for December 2006, on integrating financial education into the core school curriculum, while another described a symposium of academic researchers specializing in financial education that is to be convened by the end of September 2007 by the Treasury and Agriculture departments.
- *Community outreach and events.* Since January 2004, Treasury Department representatives said they had traveled to 40 states, the District of Columbia, and Puerto Rico to conduct or participate in financial literacy activities such as panel discussions, public speeches, and press conferences that served to promote partnerships in various communities.

[35]For example, see GAO-05-93SP, pp. 6-8. By "partnerships," we refer to shared, or joint, responsibilities between organizations from the public and private sectors where there is otherwise no clear or established hierarchy of lead and support functions.

Venues included classrooms, community centers, and military bases, and audiences included groups of community and business leaders, credit counselors, and youth educators. In coordination with other Commission members, the department's Office of Financial Education led a series of events across eight cities in April 2006 to promote the national strategy among different constituencies. For example, a Treasury Department official delivered remarks on the strategy at a California summit on financial literacy.

- *Public meetings.* The Commission's six sector-specific public meetings were designed to gather input and foster communication among various stakeholders from the private, nonprofit, academic, and public sectors. Summaries of these meetings were published and Treasury Department representatives said that they have played a role in influencing the direction of the Commission's work. In addition, the Commission's formal public meetings have included guest speakers from the nonprofit and private sectors.

In general, the private and nonprofit financial literacy organizations we spoke with said that these steps had been useful, but that, overall, their relationships with federal agencies and other entities have changed little as a result of the Commission. Some organizations noted that they had the opportunity to attend the Commission's public meetings and other events, but felt that the Commission has offered little follow-up on how to foster continued partnerships. Several private and nonprofit national organizations have extensive networks that they have developed at the community level across the country, and some of these organizations suggested the Commission could do more to mobilize these resources as part of a national effort. For example, representatives of the American Institute of Certified Public Accountants told us that it has more than 340,000 members nationwide and that the Commission would benefit from leveraging grassroots resources such as this to a greater degree. Similarly, representatives of the North American Securities Administrators Association suggested the Commission do more to tap into that organization's extensive network of state agencies.

Although the Financial Literacy Act required the Commission to take steps to help promote partnerships and coordination at the state and local level, some stakeholders told us the Commission had done relatively little to involve state and local governments. The national strategy does not include a significant discussion on coordinating federal efforts with those of state and local governments, and only some state and local government initiatives are included as illustrative examples. Some stakeholders we

spoke with suggested a variety of ways that the Commission might better involve state and local governments, such as meeting more often with state employees who deal with financial literacy issues. Greater collaboration by the Commission with state and local governments may be particularly important given the critical role that school districts can play in improving financial literacy. The Commission might consider how the federal government can influence or incentivize states or school districts to include financial education in school curriculums, which many experts believe is key to improving the nation's financial literacy.

## Conclusions

Ensuring that Americans have the knowledge and skills to manage their money wisely is a key element in improving the economic health of our nation in current and future generations. Financial literacy has become increasingly important in recent years due to the convergence of a number of economic, policy, and demographic trends. For example, the number and complexity of financial products have grown tremendously, and consumers face an increasing array of options for managing their personal finances. In addition, technological advances have increased the capacity for targeted marketing to consumers, which may increase some consumers' vulnerability to fraudulent financial products. Further, workers today are increasingly responsible for managing their own retirement savings—yet at the same time, the nation's personal saving rate has fallen dramatically in recent decades, and household debt hovers at record high levels. Financial education efforts aimed at such things as boosting the national saving rate are key to helping improve our citizens' economic security and our country's economic growth.

In the relatively short period since its creation, the Commission has played a helpful role by serving as a focal point for federal efforts and making financial literacy a more prominent issue among the media, policymakers, and consumers. Its national strategy is a useful first step in highlighting key issues and surveying the landscape of existing financial literacy efforts. The Commission was also successful in rolling out the My Money Web site and telephone hotline in a relatively short time. We recognize the significant challenges confronting the Commission—most notably, the inherent difficulty of coordinating the efforts of 20 federal agencies. Given the small number of staff devoted to operating the Commission and the limited funding it was provided to conduct any new initiatives, we believe early efforts undertaken by the Commission represent some positive first steps. At the same time, more progress is needed if we expect the Commission to have a meaningful impact on improving the nation's financial literacy.

The lack of specific recommendations on roles, funding, and activities in the national strategy may stem in part from the challenge of reaching consensus among multiple agencies, each of which has its own set of interests, resources, and constituencies. Moreover, the Commission is constrained by its own resources—with the equivalent of fewer than three full-time staff, there are limits to what the Commission, as an entity unto itself, can be expected to do. Ultimately, the effectiveness of the Commission will depend on the commitment and collaboration of the 20 individual federal agencies that comprise it.

The national strategy represents an evolving effort, as the law requires that it be reviewed and modified, as deemed necessary, at least once a year. Future iterations of the strategy could be improved by modifying it to serve as more of a functional "strategy"— a plan of action intended to achieve specifically stated goals—and by including several additional elements desirable in any national strategy that we found to be only partially addressed. Because the strategy does not set clear and specific goals, benchmarks, or other evaluation mechanisms, it does not hold the Commission and its member agencies accountable or provide overall indicators of the nation's progress in improving financial literacy. Moreover, the Commission's work could be more complete if consideration were given to developing a concrete definition for financial literacy and education to help define the scope of the Commission's work. In addition, because the strategy does not include a clear description of the resources needed to achieve these goals, policymakers lack information that would be helpful in allocating resources and directing implementation of the strategy. Finally, the lack of a detailed discussion of suggested roles and responsibilities hinders the ability to conduct a coordinated and productive national effort. As a result of these factors, the strategy is likely to play a limited role in meaningfully improving the nation's financial literacy.

The My Money Web site and telephone hotline offer consumers access to a variety of federal financial literacy resources in a single place. However, without conducting usability tests and formally measuring customer satisfaction, the Commission and others cannot determine whether the Web site is meeting its intended purpose or make improvements that would encourage more consumers to use it.

The Financial Literacy Act required the Commission to identify areas of overlap and duplication among federal financial literacy activities and evaluate the effectiveness of federal financial literacy materials. However, rather than using an independent evaluator, the Commission made a

determination on its own of the extent of overlap and duplication, and it asked agencies to assess their own programs. The process thus lacked the benefit of assessment by a disinterested party. The Commission could benefit from conducting a more independent review of duplication and overlap, and from an evaluation of federal activities that does not rely solely on agencies' self-assessments.

Further, given the wide array of state, local, nonprofit, and private organizations providing financial literacy programs, the involvement of the nonfederal sectors is important in supporting and expanding Commission efforts to increase financial literacy. Thus far, the Commission has taken some helpful steps to promote partnerships, consisting mainly of outreach and publicity efforts, such as conducting speaking engagements and holding public meetings. As the Commission continues to implement the strategy, it should consider expanding its activities and work to develop mutually beneficial and lasting partnerships that will be sustainable over the long term.

## Recommendations for Executive Action

To help ensure that the National Strategy for Financial Literacy serves its goal of improving the nation's financial literacy and education, we recommend that the Secretary of the Treasury, in concert with other agency representatives of the Financial Literacy and Education Commission, incorporate into the national strategy the following elements:

- a concrete definition for financial literacy and education to help define the scope of the Commission's work;
- clear, specific goals and performance measures that would serve as indicators of the nation's progress in improving financial literacy and benchmarks for what the Commission sets out to achieve;
- actions needed to accomplish these goals, so that the strategy serves as a true implementation plan;
- a description of the resources required, which would help provide policymakers information on allocating resources and directing implementation of the strategy; and
- a discussion of appropriate roles and responsibilities for federal agencies and others, to help promote a coordinated and efficient effort.

To ensure that the My Money Web site best serves consumers seeking financial education, we recommend that the Secretary of the Treasury and other representatives of the Commission provide for its Web site subcommittee to take the following actions:

- conduct usability testing to measure the quality of users' experiences with the Commission's Web site; and
- measure customer satisfaction with the site, using whatever tools deemed appropriate, such as online surveys, focus groups, and e-mail feedback forms.

To help ensure the efficient use of federal resources, we recommend that the Secretary of the Treasury, in conjunction with the Commission, provide for an independent third party to carry out the review of duplication and overlap among federal financial literacy activities as well as the review of the availability, utilization, and impact of federal financial literacy materials.

To encourage effective and efficient use of scarce human and financial resources, we recommend that the Secretary of the Treasury, in concert with other representatives of the Commission, consider ways to expand upon current efforts to cultivate sustainable partnerships with nonprofit and private entities. As part of these efforts, the Commission should consider additional ways that federal agencies could coordinate their efforts with those of private organizations that have wide networks of resources at the community level. The Commission should also explore additional ways that the federal government might encourage and facilitate the efforts of state and local governments to improve financial literacy.

## Agency Comments and Our Evaluation

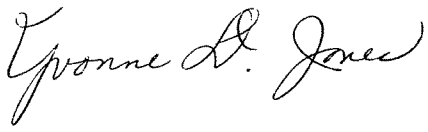
We provided a draft of this report to the Treasury Department, in its capacity as chair of the Commission, for comment. The department provided a written response, which is reprinted in appendix III, and technical comments, which we incorporated as appropriate. In its response, the department noted that the National Strategy for Financial Literacy was the nation's first such effort and, as such, was designed to be a blueprint that provides general direction while allowing diverse entities the flexibility to participate in enhancing financial education. The department said that the strategy's calls to action are appropriately substantive and concrete—setting out specific issues for discussion, conferences to be convened, key constituencies, and Commission

members that should be responsible for each task. We acknowledge that the national strategy represents an early effort but continue to believe that future iterations of the strategy would benefit from inclusion of the characteristics cited in our report. The department also said that it will consult further with the Commission on developing definitions of "financial literacy" and "financial education."

In addition, the department said that the My Money Web site and hotline represent one of the Commission's earliest successes and that these resources continue to be enhanced. The department said that it will ask the Commission to consider a usability study and a customer satisfaction survey of the Web site. Further, the department said it believes that the Commission is satisfying the statutory requirement to identify potential overlap and duplication through the survey of agencies it does in conjunction with GSA. The department acknowledged that the Commission's review of the effectiveness of federal financial literacy materials may lack independence and said it will work with the Commission to consider other alternatives for this process. In addition, the department noted that it has a long history of partnerships with nonfederal entities and will consult with the Commission about how to work more closely with the types of organizations described in our report.

We are sending copies of this report to the Secretary of the Treasury, interested congressional committees, and to the heads of the other 19 agencies that are members of the Commission. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or jonesy@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions are listed in appendix IV.



Yvonne D. Jones
Director, Financial Markets
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# Appendix I: Scope and Methodology

Our reporting objectives were to review the Financial Literacy and Education Commission's (the Commission) (1) progress in developing an effective national strategy to promote financial literacy and education; (2) progress in implementing its Web site, telephone hotline, and multimedia campaign; and (3) steps to coordinate federal financial literacy efforts and promote partnerships among and between government, nonprofit, and commercial organizations.

To address all three objectives, we reviewed relevant provisions of the Financial Literacy and Education Improvement Act, which created the Commission and set out its requirements. We also reviewed and analyzed relevant documents, including the Strategy for Assuring Financial Empowerment, National Strategy for Financial Literacy, the strategy's Quick Reference Guide, and the Commission's meeting transcripts and planning documents. In addition, we interviewed officials at the Department of the Treasury's Office of Financial Education, which coordinates the Commission's work, as well as representatives of each of the 19 other federal agencies represented on the Commission—the Departments of Agriculture, Defense, Education, Health and Human Services, Housing and Urban Development, Labor, and Veterans Affairs; the Commodity Futures Trading Commission; Federal Deposit Insurance Corporation; Federal Reserve Board; Federal Trade Commission; General Services Administration; National Credit Union Administration; Office of the Comptroller of the Currency; Office of Personnel Management; Office of Thrift Supervision; Securities and Exchange Commission; Small Business Administration; and Social Security Administration. We also met with a range of financial literacy representatives and experts outside of the federal government to gather their views on the Commission's role and activities. These included representatives of nonprofit organizations, such as the Jump$tart Coalition for Personal Financial Literacy and National Endowment for Financial Education; the private sector, such as Citigroup's Office of Financial Education and the American Institute of Certified Public Accountants; state and local governments, such as offices of financial education in Pennsylvania and Wisconsin; advocacy organizations, such as the National Council of La Raza; and an academic expert in the field of financial literacy.

To review the Commission's progress in developing an effective national strategy to promote financial literacy and education, we analyzed the national strategy and gathered feedback on it from the stakeholders described above. We also reviewed public comments on the national strategy submitted to the Treasury Department, notes from meetings of the national strategy working group, and summaries of six sector-specific

public meetings held by the Commission. We assessed the strategy, in part, by benchmarking it against our prior work that has identified the general characteristics of an effective national strategy.[1] Our recommended characteristics for national strategies were developed by reviewing several sources of information, which included the Government Performance and Results Act of 1993; legislative and executive branch guidance for national strategies; general literature on strategic planning and performance; and our prior work on issues related to planning, integration, implementation, and other related subjects. To assess whether the National Strategy for Financial Literacy contained these desirable characteristics, two analysts independently assessed the strategy against each element of a characteristic. If the analysts did not agree, their supervisor rated the element, and all ratings were used to determine the final rating for that element. We gave each of the six characteristics a rating of either "generally addresses," "partially addresses," or "does not address." According to our methodology, a strategy "generally addresses" a characteristic when more than half of the elements of the characteristic are addressed. Within our designation of "partially addresses" is any characteristic where at least one element was judged to be partially addressed. A strategy "does not address" a characteristic when it does not explicitly cite or discuss any parts of the elements of that characteristic or any implicit references are either too vague or general to be useful.

To review the Commission's progress in implementing its Web site and telephone hotline, we interviewed representatives of the General Services Administration (GSA), which operates these resources, and members of the Commission's Web site and hotline subcommittees. We also asked financial literacy stakeholders outside of the federal government for their assessment of these resources. In addition, we gathered and reviewed meeting minutes and planning documents of the Commission's Web site and hotline subcommittees. We visited the Web site (http://www.mymoney.gov) and systematically recorded, categorized, and analyzed its content and organization. We also called the Commission's toll-free telephone hotline (1-888-696-6639) to order the free financial literacy tool kit and spoke to the hotline's telephone agents. To identify best practices for U.S. government Web sites, we reviewed policies of the Office of Management and Budget for federal public Web sites, as well as recommended best practices and guidelines submitted to the office by the Interagency Committee on Government Information. We also visited the

[1]GAO-04-408T.

Web Content Managers Advisory Council's Web site (http://www.webcontent.gov) and reviewed information on implementation guidance for commonly accepted best practices.

To determine the extent of public use of the Web site, hotline, and tool kit, we obtained and analyzed data from GSA on their usage since their inception in October 2004. To determine how public use of the Commission's Web site compared with similar cross-agency portals, we obtained and analyzed data from GSA on other Web sites hosted by its Federal Citizen Information Center. To provide a point of comparison for the usage of the Commission's Web site, we obtained and analyzed data on the usage of financial education Web sites offered by three private organizations—the Employee Benefit Research Institute, the American Institute of Certified Public Accountants, and the National Endowment for Financial Education. We compared the number of Web site "visits"—defined as all the activity of one visitor to a site within a specified period, usually 30 minutes—across these sites. We did not independently verify the data provided by these organizations. We did review the procedures for collecting the data and determined that these data were sufficiently reliable for the purposes of our report. To review the Department of the Treasury's progress in implementing its national public service multimedia campaign, we interviewed, and gathered documents from, representatives of the department's Office of Financial Education and representatives from the Advertising Council.

To review the Commission's steps to coordinate financial literacy efforts and promote partnerships, we examined our prior work that discussed recommended practices for collaboration and partnership between and among federal agencies and other entities.[2] We reviewed relevant sections of the national strategy and related reports, and discussed with representatives at the Treasury Department's Office of Financial Education the steps the Commission has taken to coordinate government efforts and promote partnerships. We also asked for an assessment on the Commission's progress in this area from representatives of the federal agencies serving on the Commission, as well as financial literacy experts and stakeholders in the nonprofit, private, academic, and state and local government sectors.

[2]For example, GAO-06-15 and GAO-05-93SP.

We conducted our work in the Washington, D.C., metropolitan area and Boston, Massachusetts, from January 2006 through November 2006 in accordance with generally accepted government auditing standards.

# Appendix II: Summary of Expenditures and Funding Sources for the Commission

The Financial Literacy and Education Improvement Act established the Financial Literacy and Education Commission. The act authorized to be appropriated such sums as may be necessary to carry out its provisions, including administrative expenses of the Commission. In addition, the act authorized to be appropriated to the Secretary of the Treasury $3 million for fiscal years 2004, 2005, and 2006 to develop, produce, and distribute a pilot national public service multimedia campaign to enhance the state of financial literacy and education in the United States. The act also required the Treasury Department to provide assistance to the Commission upon request without reimbursement and authorizes any federal government employee to be detailed to the Commission, also without reimbursement.

In fiscal year 2005, Congress provided $1 million to the Commission to develop and implement the national strategy for financial literacy. The Commission obligated $958,790 of the total $1 million provided to it, as shown in table 3. The Treasury Department advised us that it obligated $750,000 of the $958,790 to develop the mandated multimedia campaign. Congress did not provide any funds for the Commission in fiscal year 2006. However, as shown in table 4, for fiscal year 2006, the Treasury Department estimates that the Office of Financial Education allocated approximately $350,291 to support the Commission, which included staff support of 2.5 staff years (full-time equivalent staff) and funds for printing, conferences, and travel. In addition, from April 2003 to August 2006, the Federal Deposit Insurance Corporation, GSA, and Department of Justice detailed seven staff members to the Commission for short-term periods, ranging from 2 months to 2 years each. However, most representatives of the Commission could not provide us with an estimate of the resources their agencies had devoted to the Commission, most of which consisted of in-kind staff assistance.

**Table 3: Treasury Department's Expenditures under Budget Authority for Developing and Implementing a National Financial Literacy Strategy, Fiscal Year 2005**

| Expenditure | Cost |
|---|---|
| Multimedia campaign | $750,000 |
| Professional editors – national strategy | 85,000 |
| Spanish translators – national strategy | 20,000 |
| Design, printing, and distribution – national strategy | 80,000 |
| Printing "My Money" logo on government envelopes | 16,680 |
| Transcripts for six public meetings | 7,110 |
| **Total cost** | **$958,790** |

Source: Treasury Department's Office of Financial Education

**Table 4: Treasury Department's Office of Financial Education's Support to the Financial Literacy and Education Commission, Fiscal Year 2006**

| Type of support | Cost |
|---|---|
| Staff support (approximately 2.5 FTEs) | $236,000 |
| Printing and graphics | 98,000 |
| Travel | 6,811 |
| Meetings and conference transcripts | 9,480 |
| **Total cost** | **$350,291** |

Source: Treasury Department's Office of Financial Education

# Appendix III: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 17, 2006

Ms. Yvonne Jones
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Jones:

Thank you for providing the Department of the Treasury ("Treasury") an opportunity to review and comment on the Government Accountability Office's ("GAO") draft report assessing the effectiveness of the Financial Literacy and Education Commission (the "Commission") in promoting financial literacy. Through our Office of Financial Education, Treasury demonstrates its commitment to raising the financial literacy levels of all Americans, and we welcome the insights of GAO on how we can better accomplish this important mission. This letter addresses the following key areas of the draft report: the development of the national financial literacy strategy; the *My Money* website and toll-free hotline; and coordination efforts among the Commission members and partnerships with the public and private sectors.

*National Strategy*

As outlined in Title V of the Fair and Accurate Credit Transactions (FACT) Act of 2003, Treasury's objective is to guide federal financial literacy efforts while coordinating existing government-wide initiatives. Consistent with GAO's recommendations, Treasury plans to consult further with the Commission on developing definitions of "financial literacy" and "financial education." As the first ever U.S. national financial literacy strategy, it is designed to be a blueprint that provides general direction while allowing diverse entities the flexibility to participate in enhancing financial education. The *National Strategy* was intended to raise public awareness of financial literacy, identify the key issues involved, and survey the landscape of current financial literacy efforts. The Commission plans to review the *National Strategy* annually and update it as necessary to reflect the current state of America's financial literacy.

Through the "calls to action" in the *National Strategy*, the Commission outlined specific steps for further development of our nation's financial education infrastructure. The Commission, by implementing its national strategy, seeks first to build a base of knowledge and a consensus among key players. Treasury anticipates that this process will assist the Commission in developing the best approaches for addressing a host of financial education issues. The "calls to action" set out specific financial literacy issues to be discussed (with some identifying specific deliverables), the conferences that should be convened, key constituencies to include in these conferences, and the Commission members that should be responsible for each task. Therefore, these "calls to action" are appropriately substantive and concrete for the latest financial education efforts in the United States.

My Money Website and Hotline

One of the Commission's earliest successes was the launch of a central web site, MyMoney.gov, and a toll-free hotline, 1-888-My Money, for federal government materials in just nine months after the group's first meeting. Through the active efforts of two Commission sub-committees, we have significantly enhanced these resources. Treasury will continue to work with the Commission to make the website and toll-free hotline more effective in general. Consistent with GAO's recommendations, Treasury will ask the Commission to consider a usability study as well as a consumer satisfaction survey.

Coordination Efforts

Coordinating among the 20 federal agencies and bureaus of the Commission is critical. Specifically, Title V of the FACT Act requires that the Commission identify any overlap and duplication of federal financial literacy efforts. Treasury believes that the Commission is satisfying this requirement by requiring the General Services Administration along with Treasury to regularly survey agencies to identify potential overlap or duplication of efforts in the federal government. Also, Title V requires that materials created by Commission members be reviewed for effectiveness. Presently, each agency reviews its own materials. The GAO report has noted that this review process lacks independence from the Commission. Treasury acknowledges this issue and will work with the Commission to consider other alternatives for the process going forward

Further, the GAO report recommends that the Commission work closely with private entities, and state and local governments to improve financial literacy. Treasury has a long history of partnerships with non-profit and for-profit organizations as well as state and local governments. This ongoing commitment to establishing and enhancing financial literacy and education partnerships has been strengthened since the creation of the Commission. Treasury will consult with the Commission about how to work more closely with the types of organizations described in the report.

GAO's review of the Commission's *National Strategy* will be considered carefully by Treasury in coordination with the other Commission members as we move forward in the implementation and future reviews of the strategy. I especially want to recognize the financial literacy efforts of the other Commission members. The efforts of each agency are an integral part of the Commission's charge to improve financial literacy. Treasury is strongly committed to guiding the coordination efforts of this important Commission.

The views expressed in this letter have not been reviewed or approved by the other Commission members.

Sincerely,

Dan Iannicola Jr.

Dan Iannicola, Jr.
Deputy Assistant Secretary
Office of Financial Education

# Appendix IV: GAO Contact and Staff Acknowledgments

| | |
|---|---|
| GAO Contact | Yvonne D. Jones, (202) 512-8678, or jonesy@gao.gov |
| Staff Acknowledgments | In addition to the individual named above, Jason Bromberg, Assistant Director; Nima Patel Edwards; Eric E. Petersen; William R. Chatlos; Amanda J. Elkin; Emily R. Chalmers; and Linda Rego made key contributions to this report. |

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|---|---|
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*Statement for the Record*

Arthur R. Connelly

*On Behalf of the*

AMERICAN **BANKERS** ASSOCIATION

*Before the*

Committee on Financial Services

*Of the*

United States House of Representatives

April 15, 2008



Testimony of Arthur R. Connelly
on behalf of the
American **Bankers** Association
before the
Committee on Financial Services

Of the
United States House of Representatives

April 15, 2008

Mr. Chairman and members of the Committee, my name is Arthur R. Connelly. I am Chairman of South Shore Savings Bank in Weymouth, Massachusetts, and Chairman-Elect of the American Bankers Association (ABA). South Shore Bank is a mutual savings bank with roughly $950 million in assets and has been in existence for 175 years. I am pleased to submit this testimony for the record on behalf of the ABA and its financial education subsidiary, the ABA Education Foundation, to address the banking industry's role in promoting financial education.

The American Bankers Association brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $12.7 trillion in assets and employ over 2 million men and women.

First, I'd like to emphasize that this hearing is quite timely as more than 10,000 bankers – including myself and members of my staff – are preparing to participate in the 12th annual Teach Children to Save Day on April 29. It's particularly noteworthy that so far 10,603 bankers have pledged to participate in this year's event, more than double the 4,819 registered at this same time last year. As these numbers show, bankers fully embrace their

role as financial educators and especially so during these tough economic times. For your reference, I've attached information about the Teach Children to Save program and a list of banks from across the country that are participating this year.

I would like ro recognize and thank Chairman Frank for exploring the ways that private sector financial education initiatives can be used to help create a generation of financially savvy consumers. I also want to acknowledge the work of Representatives Biggert and Hinojosa who co-chair the Congressional Financial and Economic Literacy Caucus. Their leadership of this group – which includes many of the members of this committee – shows their commitment to increasing financial literacy. I'd also like to recognize the members of this committee who have stood side-hy-side with bankers, and taught saving and credit management lessons through the ABA Education Foundation's Teach Children to Save and Get Smart About Credit programs, including Reps. Melissa Bean, Judy Biggert, Rubén Hinojosa, Al Green, Carolyn Maloney and Deborah Price.

Our individual institutions and our industry as a whole are uniquely suited to helping stop the cycle of financial illiteracy. In this testimony, I'd like to demonstrate banks' role in increasing financial education by discussing three points:

- Banks across the country, like South Shore Savings Bank, are actively involved, operating financial education programs unique to the needs and characteristics of our communities.
- Bankers reach thousands of students each year through their individual efforts and through collaborative, industry-wide financial education efforts organized by the ABA Education Foundation.

- Collaborative efforts among businesses, non-profit organizations, and government agencies will help to leverage each sector's own efforts to provide a variety of choices for consumers to learn about managing money.

**Financial Education is Important and Bankers Are Actively Involved**

As technology and innovation continue to advance, the world continues to become more and more complex. The myriad of options across all industries and products complicates the ability of consumers to make informed decisions. With regard to financial services, the number of available options makes the challenge of money management more difficult and the banking industry is evolving to better meet the needs of its customers. Yet financial illiteracy remains a problem. Basic money management skills are often lacking in adults today and many parents feel unprepared to teach their kids about money.

To help address this problem, thousands of bankers are taking the lead in communities nationwide with financial education programs aimed at adults, children, high school students, senior citizens and those with limited access to financial services, including recent immigrants, and low- and moderate-income individuals.

My bank, for example, has provided financial education in the community for many years. As I mentioned, we are participating in the upcoming Teach Children to Save Day, but that's just one small part of our financial education program that operates year-round.

One component of our program is our World of Banking course offered at the local high school. This year-long class teaches students basic personal finance and the ins-and-outs of banking through instruction from South Shore bankers and through the operation of a full-service, in-school branch. Under the supervision of bankers, the students work as tellers and customer service representatives. The bank, known as Scholars and Cents, is a

natural complement to the school's student-run mall, which encompasses a student-run restaurant as well as a beauty salon and bakery. We have found, and teachers agree, that in-school banks are a great way to impart financial education as they provide opportunities for students to experience real-life financial transactions in a safe environment – experiential learning at its best.

Another program that our bank participates in, along with about 150 other Massachusetts banks, is the Savings Makes Sense Program, which is operated by State Treasurer Tim Cahill. Every week, we have bank staff that travel to the local elementary schools to teach financial education and collect savings account deposits from the students. Our hope is that these youngsters will grow up to be active savers as well as spenders.

My bank's experience is not unique and many other banks are developing very innovative financial education programs. For example, First National Bank Alaska in Anchorage developed an innovative program that leverages the bank's longstanding relationship with the non-profit Alaska Schools Activities Association and the Permanent Fund Dividend (PFD) that eligible Alaska residents receive each year.

Through their program, all Alaskan children who elect to have their PFD direct-deposited into their Young Savers account receive their choice of a piggy bank or wallet imprinted with an Alaska animal. First National Bank Alaska encourages children to save by focusing on the uniqueness of Alaska.

First National Bank of Chester County, located in West Chester, Pennsylvania launched its financial education program several years ago. As part of the program, First National established a school bank for deposits and arranged periodic bank tours for kids at

its main office. It was so successful, the bank added two fifth-grade classes to its program at the behest of teachers.

Wayne County Bank in Waynesboro, Tennessee, has operated a school bank for 17 years that enables students to make deposits. But it adds a twist to that concept with a popular "money wheel." Every time a student makes a deposit, a bank employee spins the wheel, and whatever slot the wheel stops on - $1, $2, $5 (which once a month changes to $10) – Wayne County Bank adds that amount to the deposit.

Initiatives such as these exemplify the role banks play with respect to financial education in their communities, especially the school system. By promoting familiarity with bank employees and financial concepts in general, banks are building trust and confidence, and creating a win-win situation. Such investment pays off not only in present and future business, it undoubtedly boosts the financial literacy of the entire community.

## The ABA Continues to Promote and Provide Resources to Advance Financial Education Outreach

Banks are not alone in their efforts. The ABA promotes financial education through its 501c3 subsidiary, the ABA Education Foundation (ABAEF). The ABAEF sponsors national programs that encourage collaborative, industry-wide efforts to educate consumers on practical money management. In addition, the ABAEF provides resources that help individual banks start or enhance a financial education program. Its resources are specifically developed for the banking industry and enable bankers to teach budgeting, saving and credit management skills through hands-on presentations, online courses, booklets, Web sites and newsletters.

Every April, National Teach Children to Save Day brings bankers into local schools to talk with students and their teachers about savings and money management. Since its inception in 1997, more than 45,000 bankers have entered classrooms to teach lessons about the importance of saving money to nearly 2.3 million students nationwide. The ABAEF also makes Teach Children to Save resource kits available which include age-appropriate lesson plans, student worksheets, display posters, and media tips and talking points.

On Get Smart Ahout Credit Day, held the third Thursday of October, hundreds of hankers across the country trade their balance sheets for blackboards and volunteer in classrooms to teach kids the do's and don'ts of credit. More than 300,000 students have learned how to use credit wisely through the Get Smart About Credit Day program, which celebrates its sixth anniversary this year. The ABAEF offers a resource kit for this program which includes lessons on credit and debit payment options, lessons on identity theft, pre- and post-tests, and communications tools.

Recently, the ABAEF created a new credit education Web site called getsmartaboutcredit.com. The new Web site offers consumers a one-stop shop for the resources and tools necessary to effectively manage their use of credit. It features free interactive online tools and information from the ABAEF and various financial institutions. The highlighted programs and articles help consumers understand their credit card bill, see the true costs of paying only the minimum halance each month, understand credit scores and how to keep them strong, and find the card that is right for them.

The Web site is a complement to the ABAEF's Get Smart About Credit eLearning Program. This self-paced interactive program gives teens and young adults an online experience where they learn how to manage credit wisely. The elearning program allows the

cause of financial literacy to be further advanced and adds an extra layer of convenience for new credit users. Banks can offer the program on their own Web sites and track how many students and young adults they have reached.

Teach Children to Save and Get Smart About Credit are just two examples of what the Foundation is doing to increase financial education. The number of bankers involved and the number of students reached through these programs by no means capture what the banking industry as a whole is doing. Indeed, bankers are reaching more and more people every day, teaching lessons on budgeting, credit and saving.

**Collaboration and Individual Efforts Create a Variety of Choices**

If we were to start from scratch, delivery of financial education would surely look different than it does today. Like our system of highways, the numerous financial education programs available are not the result of a centralized effort to bring financial literacy to every corner of America. Rather, they are the product of separate and distinct undertakings by businesses, non-profit organizations and governments. As with the highway system, the key is to interconnect all of these pathways in an effort to promote greater efficiency, while simultaneously encouraging continued development of new and innovative programs.

The ABA Education Foundation benefits from working with other organizations. It has formed financial literacy partnerships with several national organizations such as the Jump$tart Coalition for Personal Financial Literacy and with Scholastic Inc., the world's largest publisher of children's books. The Foundation has also worked with the U.S. Department of the Treasury, pairing Treasury officials with local bankers for participation in Teach Children to Save Day since 2001. And, the Foundation features the FDIC's Money Smart program on its Web site and encourages its use among bankers.

Yet it is important to bear in mind that there are certain limits to collaboration. America is a melting pot of differing peoples and cultures. Because individual banks serve unique and varying communities, the financial education programs employed by one bank may not be of the same value to another because their audiences might be different. Thus, the financial education programs we employ are specifically designed to reach this audience and may not be the best fit for banks located in other communities.

Just as there are benefits to collaboration, there are also benefits to encouraging individual creativity. Banks are in the best position to adapt financial education programs to meet the needs of the communities they serve. This includes determining what channels are most appropriate for delivery. Whether it's hands-on classroom presentations, video presentations, interactive Internet programs, brochures, Web links, or some combination of teaching methods, banks are well-poised to decide which roadways to financial literacy make the most sense for their communities.

Our national highway system promotes efficiency by interconnecting pre-existing roadways. However, just as there are benefits to interconnectivity, having multiple options when traveling from one place to another is also of benefit. Collaboration with regard to financial education will also promote efficiency and should be encouraged, but not at the expense of creative solutions designed to address unique community needs. I think we can all agree that a choice in learning products is always a good thing.

## Conclusion

Financial education is vitally important, and as the financial world becomes more and more complex, the banking industry will continue to play a key role in expanding financial education outreach efforts. Thousands of bankers nationwide are taking active roles in

developing programs in their communities. The ABA Education Foundation is working to provide bankers with the tools they need to enhance their individual programs as well as national programs that banks can support as an industry. Because the issue of financial education is so important, we all need to work together to create programs that best meet the needs of all Americans. Individual businesses, non-profit organizations, and government should continue to develop financial education programs specifically designed for their particular audiences, while seeking to also work together to provide a variety of choices for consumers to learn about managing their money.

ABA EDUCATION FOUNDATION
A subsidiary of the AMERICAN BANKERS ASSOCIATION®

# What Bankers Are Saying About **National Teach Children to Save Day**

*"Just like reading, writing and arithmetic, it's best to teach children personal finance skills from an early age. Learning to save is the first step to becoming a successful money manager. United Bank employees share their knowledge and skills with young people through the Teach Children to Save program. This is an important service we can provide in our community — to our friends, neighbors, customers."*

**Arthur C. Johnson, Chairman & CEO**
**United Bank of Michigan**
**Grand Rapids, Mich.**

"We recognize how important it is that younger generations learn [how to] manage their money. We know we can help them and who better [than us]?"

**Kulley Bancroft, Vice President of Public & Community Relations**
**Sandy Spring Bank – Olney, Md.**

"This was a great experience for me — can't wait to do it again next year!"

**Jackie Bennett**
**United Bank – Foley, Ala.**

"Citi is committed to financial education and helping young people learn the importance of finance. Teach Children to Save is an integral part of our commitment. Since 2000, our 3,100 Citi volunteers reached 98,617 kids nationally."

**Natalie Abatemarco, Director, North America Community Programs**
**Citi – New York, N.Y.**

"I love the Teach Children to Save curriculum. The design of the program makes it so easy for our bank to use. And, Teach Children to Save is so rewarding, for the students, teachers, parents and our bank employees who participate."

**Vicki L. Kraai, President & CEO**
**Sutton State Bank – Sutton, Neb.**



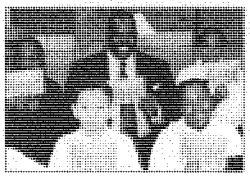
"I had a fabulous time with the 4th graders. I really feel like I have contributed to their financial education."

**Connie Knight**
**TeamBank, N.A. – Iola, Kan.**

## What Teachers Are Saying

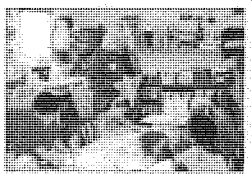
"Having someone different teach a skill or reinforce a skill makes it more fun for (the students). They perk up and get a little more excited about learning it."

3rd grade teacher
Byrneville Elementary School – Century, Fla.



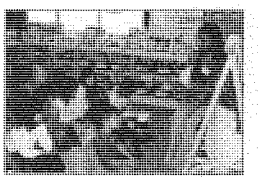
"Presenters kept students very involved…The students definitely began to think about what they spend and save."

8th grade American History teacher
Paragould Junior High – Paragould, Ark.



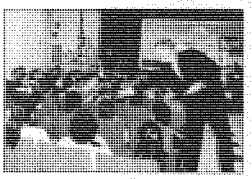
"Great program — our nation's youth need to learn what their parents have forgotten. Thank you!"

YMCA Girls Program Coordinator
Oconomowoc, Wis.



"This was an excellent addition to our curriculum. [The banker] did a great job engaging the students and keeping their attention. The activity was appropriate and interesting for all of my kids."

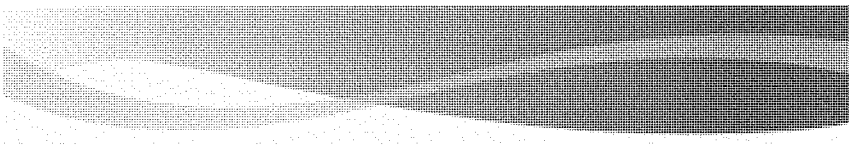
4th grade teacher
Marmaton Valley Elementary – Moran, Kan.



"This type of presentation was an excellent way to reach students. This is a great way to get the community involved in education."

5th grade teacher
Bowbells Elementary – Bowbells, N.D.

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**Contact:**

Laura Fisher
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lfisher@aba.com

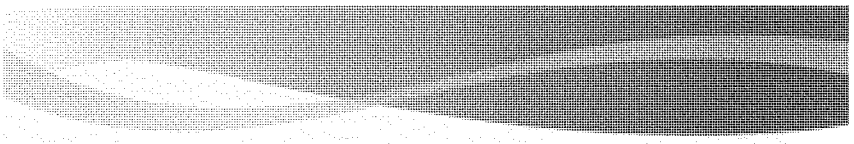
## What is Teach Children to Save Day?

The ABA Education Foundation established **Teach Children to Save Day** and the TCTS program to spotlight the importance of teaching our nation's youth about saving money. Each April volunteer bankers use their expertise to inspire students to become life-long savers. These out-of-the-ordinary classroom lessons leave a lasting impression on students and encourage a greater understanding of financial matters.

TCTS lessons bring reality and learning together, incorporating hands-on scenarios and real life experiences. In "Patty's Pet Hamster," a popular TCTS lesson from the kit for grades K-6, kids explore the difference between needs and wants, learn how to identify expenses, trade-offs and ways to cut spending.

Older students learn about needs and wants too, in "Survivor Island," a lesson designed for grades 7-12. In this lesson, students use a real life "Survivor" scenario to understand how money can influence priorities and how to identify needs in order of importance. These are just two of the many lessons that bankers use to educate kids through the TCTS program in April and year-round.

The TCTS program is sponsored by the American Bankers Association Education Foundation. Since it began in 1997, more than 45,000 bankers have taught savings skills to nearly 2.3 million young people. To learn more about Teach Children to Save, visit www.abaef.com or call 1-800-BANKERS.






# Information on the ABA Education Foundation

**Contact:**

Laura Fisher
Director
ABA Education Foundation
(202) 663-5309
lfisher@aba.com

The American Bankers Association Education Foundation, a non-profit subsidiary of the American Bankers Association, has supported and promoted the financial education efforts of bankers since it was established in 1925. The Foundation's programs and resources help bankers address the financial education needs of their communities.

The Foundation is best known for its two signature programs: Teach Children to Save and Get Smart About Credit. Both programs connect schools with thousands of bankers across the country who go into the classroom and share with students the financial facts of life. Through the Foundation's programs, more than 54,000 bankers have taught personal finance skills to nearly 2.6 million children and young adults.

Lesson materials used in the TCTS and the GSAC programs support national curriculum standards established by the National Council of Teachers of Mathematics, the National Council of Teachers of English and the Family and Consumer Sciences. Materials also meet the Jump$tart Coalition for Personal Financial Literacy's standards and benchmarks.

The Foundation also counsels bankers on how to start a financial education program and provides tips and ideas through its monthly e-newsletter, *The Spirit of Banking*. Other resources include the Get Smart About Credit eLearning program and the *Money Talks* newsletter series designed for bank customers to use when teaching the young people in their life about money management. The Foundation is guided by a board of banker advisors and works in partnership with leading financial education and banking trade groups.

For more information visit www.abaef.com or call 1-800-BANKERS

**Official Teach Children to Save 2008 Honor Roll**

| | |
|---|---|
| **Alabama** | |
| BancorpSouth Bank (4) | Tupelo, Miss. |
| Alabama Bankers Association | Montgomery |
| Aliant Bank | Birmingham |
| Community Bank & Trust Company of Southeast Alabama | Enterprise |
| Frontier Bank | Sylacauga |
| Regions Bank | Birmingham |
| Southern States Bank | Anniston |
| SouthPoint Bank | Birmingham |
| The Bank of Tuscaloosa | Tuscaloosa |
| The Exchange Bank of Alabama | Gadsden |
| United Bank | Atmore |
| Vision Bank | Gulf Shores |
| **Alaska** | |
| Denali State Bank | Fairbanks |
| First National Bank Alaska | Anchorage |
| Northrim Bank | Anchorage |
| Wells Fargo Bank, National Association | Anchorage |
| **Arizona** | |
| First State Bank (3) | Flagstaff |
| First National Bank of Arizona (2) | Scottsdale |
| Asian Bank of Arizona | Phoenix |
| BNC National Bank | Scottsdale |
| Desert Hills Bank | Phoenix |
| National Bank of Arizona | Phoenix |
| Sunrise Bank of Arizona | Phoenix |
| Valley Capital Bank, National Association | Mesa |
| Western National Bank | Phoenix |
| Yuma Community Bank | Yuma |
| **Arkansas** | |
| BancorpSouth Bank (12) | Tupelo, Miss. |
| Arvest Bank | Fort Smith |
| Bank of Salem | Salem |
| Community Bank | Cabot |
| Diamond Bank | Hot Springs |
| First Arkansas Bank and Trust | Jacksonville |
| First Community Bank | Batesville |
| First National Bank & Trust Company | Mountain Home |
| Metropolitan National Bank | Little Rock |
| Simmons First Bank | Searcy |
| Simmons First National Bank | Pine Bluff |
| The First National Bank of Fort Smith | Fort Smith |

| | |
|---|---|
| The Union Bank of Mena | Mena |

**California**

| | |
|---|---|
| First California Bank (11) | Camarillo |
| 1st Centennial Bank | Redlands |
| American River Bank | Roseville |
| Antelope Valley Bank, a division of California Bank & Trust | Lancaster |
| Bank of America, National Association | San Francisco |
| Bank of Marin | Novato |
| BBVA Bancomer USA | Diamond Bar |
| Broadway Federal Bank, F.S.B. | Los Angeles |
| Central Valley Community Bank | Fresno |
| Community Bank | Covina |
| Exchange Bank | Santa Rosa |
| Far East National Bank | Los Angeles |
| First Regional Bank | Torrance |
| Mission Community Bank | San Luis Obispo |
| Montecito Bank & Trust | Santa Barbara |
| Neighborhood National Bank | National City |
| North Valley Bank | Redding |
| PremierWest Bank | Woodland |
| Sutter Community Bank | Yuba City |
| Umpqua Bank | Eureka |
| Union Bank of California, N.A. | San Francisco |
| Vineyard Bank, National Association | Corona |
| Wells Fargo Bank, National Association | San Francisco |

**Colorado**

| | |
|---|---|
| Alpine Bank (2) | Glenwood Springs |
| U.S. Bank National Association (2) | Cincinnati, Ohio |
| Integrity Bank & Trust (2) | Colorado Springs |
| American National Bank | Colorado Springs |
| Colorado National Bank | Falcon |
| Farmers State Bank | Calhan |
| First National Bank of the Rockies | Grand Junction |
| FirstBank of Colorado Springs | Colorado Springs |
| Grand Mountain Bank, FSB | Granby |
| High Country Bank | Salida |
| Larimer Bank of Commerce | Fort Collins |
| Loveland Bank of Commerce | Loveland |
| Millennium Bank | Fraser |
| Morgan Federal Bank | Fort Morgan |
| Mountain View Bank of Commerce | Westminster |
| New Frontier Bank | Greeley |

**Connecticut**

| | |
|---|---|
| Fairfield County Bank Corp | Norwalk |
| Jewett City Savings Bank | Jewett City |
| Savings Institute Bank and Trust Company | Willimantic |
| The Milford Bank | Milford |

| | |
|---|---|
| Thomaston Savings Bank | Thomaston |

**District of Columbia**

| | |
|---|---|
| Citi | Washington |

**Delaware**

| | |
|---|---|
| Bank of America, National Association (2) | |
| AIG Federal Savings Bank | Wilmington |
| Applied Card Bank | Wilmington |
| Artisans' Bank | Wilmington |
| Barclays Bank Delaware | Wilmington |
| Christiana Bank & Trust Company | Wilmington |
| Citi | New Castle |
| CitiCorp Trust Bank, FSB | Wilmington |
| Citizens Bank | Wilmington |
| Commerce Bank, National Association | Wilmington |
| County Bank | Rehoboth Beach |
| Delaware Bankers Association | Dover |
| Delaware National Bank | Georgetown |
| Deutsche Bank Trust Company Delaware | Wilmington |
| Discover Bank | New Castle |
| First Bank of Delaware | Wilmington |
| ING DIRECT | Wilmington |
| JPMorgan Chase | Wilmington |
| Lehman Brothers Bank, FSB | Wilmington |
| MidCoast Community Bank | Wilmington |
| PNC Bank, Delaware | Wilmington |
| The Felton Bank | Felton |
| The First National Bank of Wyoming | Wyoming |
| Visa U.S.A., Inc. | Wilmington |
| Wachovia Bank of Delaware, National Association | Wilmington |
| Wilmington Savings Fund Society, FSB | Wilmington |
| Wilmington Trust Company | Wilmington |

**Florida**

| | |
|---|---|
| Colonial Bank, National Association (28) | Montgomery, Ala. |
| Bay Bank & Trust Co. | Panama City |
| Busey Bank, National Association | Fort Myers |
| Capital City Bank | Tallahassee |
| Charlotte State Bank | Port Charlotte |
| Citizens Bank and Trust | Lake Wales |
| Community Bank and Trust of Florida | Ocala |
| Farmers & Merchants bank | Tallahassee |
| FineMark National Bank & Trust | Fort Myers |
| First Federal Bank of Florida | Lake City |
| First Guaranty Bank and Trust Company of Jacksonville | Jacksonville |
| FirstBank Florida | Miami |

| | |
|---|---|
| Florida Community Bank | Naples |
| Legacy Bank of Florida | West Palm Beach |
| Madison County Community Bank | Madison |
| National Bank of Southwest Florida | Port Charlotte |
| Raymond James Bank, FSB | St. Petersburg |
| Regions Bank | Jacksonville |
| The First State Bank of Arcadia | Arcadia |
| TIB Bank | Key Largo |
| Vision Bank | Panama City |
| Wakulla Bank | Crawfordville |

**Georgia**

| | |
|---|---|
| McIntosh Commercial Bank (5) | Carrollton |
| American United Bank | Lawrenceville |
| Appalchian Community Bank | Ellijay |
| CB&T Bank of Middle Georgia | Perry |
| Citizens Bank of Bulloch County, a division of | |
| Citizens Bank of Washington County | Statesboro |
| Citizens First Bank | Rome |
| Commercial Banking Company | Valdosta |
| Community Bank & Trust | Cornelia |
| Darby Bank & Trust Co | Vidalia |
| Douglas County Bank | Dallas |
| F & M Bank and Trust Company | Manchester |
| Family Bank | Pelham |
| Fidelity Bank | Atlanta |
| First American Bank & Trust Company | Athens |
| First Georgia Banking Company | Bremen |
| First National Bank of Griffin | Griffin |
| Georgia Bank & Trust Company of Augusta | Martinez |
| HeritageBank of the South | Albany |
| Omni National Bank | Atlanta |
| Pelham Banking Company | Pelham |
| Pinnacle Bank | Royston |
| PlantersFIRST | Cordele |
| Sumter Bank & Trust Company | Americus |
| SunTrust Bank | Fayetteville |
| United National Bank | Cairo |

**Guam**

| | |
|---|---|
| The Bank of Guam | Hagatna |

**Hawaii**

| | |
|---|---|
| American Savings Bank, FSB | Honolulu |
| Hawaii National Bank | Honolulu |

**Idaho**

| | |
|---|---|
| U.S. Bank National Association (2) | Cincinnati, Ohio |
| Syringa Bank | Eagle |

**Illinois**

| | |
|---|---|
| Standard Bank and Trust Company (2) | Hickory Hills |
| Cambridge Bank | Lake Zurich |
| Chase | Chicago |
| First Federal Bank | Quincy |
| First Federal Savings Bank | Ottawa |
| First National Bank of Steeleville | Steeleville |
| First National Bank of Waterloo | Waterloo |
| Iroquois Federal Savings & Loan Association | Clifton |
| Lincoln Park Savings Bank | Chicago |
| Mercantile Bank | Quincy |
| State Bank of Bement | Bement |
| TCF National Bank | Burr Ridge |
| The Community State Bank | Fulton |
| The First National Bank of Ava | Ava |
| The Foster Bank | Chicago |

**Indiana**

| | |
|---|---|
| Alliance Bank | Francesville |
| Ameriana Bank, SB | New Palestine |
| American Trust & Savings Bank | Whiting |
| Bloomfield State Bank | Bloomfield |
| Centier Bank | Crown Point |
| Citizens State Bank | New Castle |
| Elkhart Community Bank | Elkhart |
| First Farmers Bank and Trust | Greentown |
| First Financial Bank, National Association | Terre Haute |
| German American Bancorp | Vincennes |
| La Porte Savings Bank | La Porte |
| Lake City Bank | Warsaw |
| Old National Bank | Evansville |
| Regions Bank | Indianapolis |
| State Bank of Lizton | Lizton |
| The Bath State Bank | Bath |
| The First National Bank of Odon | Odon |
| The New Washington State Bank | Sellersburg |
| U.S. Bank National Association | Richmond |
| United Commerce Bank | Bloomington |
| Wayne Bank and Trust Co. | Richmond |
| Your Community Bank | New Albany |

**Iowa**

| | |
|---|---|
| First Citizens National Bank (2) | Mason City |
| Peoples Trust & Savings Bank (2) | Jefferson |
| American State Bank | Sioux Center |
| American Trust & Savings Bank | Dubuque |
| Bank Iowa | Altoona |
| Banklowa | Independence |

| | |
|---|---|
| Carroll County State Bank | Carroll |
| Central State Bank | Muscatine |
| Central State Bank | Elkader |
| Citizens Savings Bank | Anamosa |
| City State Bank | Central City |
| Community Bank of Oelwein | Oelwein |
| Community State Bank | Indianola |
| East Dubuque Savings Bank | Dubuque |
| Farmers & Merchants Bank & Trust | Burlington |
| Farmers State Bank | Marion |
| Fidelity Bank & Trust | Guttenberg |
| First National Bank | Waverly |
| First National Bank Ames, Iowa | Ames |
| Freedom Security Bank | Coralville |
| Frontier Savings Bank | Council Bluffs |
| Guthrie County State Bank | Panora |
| Heritage Bank, National Association | Anthon |
| Iowa State Bank | Des Moines |
| Iowa State Bank & Trust Company | Iowa City |
| Iowa Trust and Savings Bank | Centerville |
| Landmands National Bank | Audubon |
| Manufacturers Bank & Trust Company | Forest City |
| Maquoketa State Bank | Maquoketa |
| Midstates Bank, National Association | Council Bluffs |
| Midwest Heritage Bank, F.S.B. | Clive |
| Randall-Story State Bank | Story City |
| Security Savings Bank | Gowrie |
| Security State Bank | Guttenberg |
| Security Trust & Savings Bank | Storm Lake |
| Shelby County State Bank | Harlan |
| State Bank & Trust Co. | Nevada |
| The First Trust & Savings Bank | Marcus |
| The Grundy National Bank of Grundy Center | Grundy Center |
| Tri-County Bank & Trust | Cascade |
| Wells Fargo Card Services | West Des Moines |
| West Chester Savings Bank | Washington |

**Kansas**

| | |
|---|---|
| First National Bank of Kansas (2) | Burlington |
| The Citizens National Bank (2) | Greenleaf |
| United Bank & Trust (2) | Marysville |
| American State Bank & Trust Company, National Association | Great Bend |
| Citizens Bank of Kansas, National Association | Wichita |
| The Citizens State Bank | Miltonvale |
| Community National Bank | Chanute |
| Community State Bank | Coffeyville |
| ESB Financial | Manhattan |
| The Farmers & Merchants Bank of Colby | Colby |
| First National Bank | Spearville |

| | |
|---|---|
| The First National Bank & Trust Co of Leavenworth | Lansing |
| The First National Bank and Trust Company of Junction City | Junction City |
| First National Bank in Cimarron | Cimarron |
| First National Bank of Johnson County | Olathe |
| First National Bank of Smith Center | Smith Center |
| First Option Bank | Osawatomie |
| First State Bank & Trust | Clearwater |
| The First State Bank & Trust Co of Larned | Larned |
| Grant County Bank | Ulysses |
| Great Western Bank | Shawnee |
| Hoisington National Bank | Hoisington |
| M&I Marshall & Ilsley Bank | Leawood |
| Security Savings Bank, F.S.B. | Olathe |
| Bank of Tescott | Lincoln |
| The Citizens State Bank | Moundridge |
| The First National Bank of Olathe | Olathe |
| Union State Bank | Uniontown |

**Kentucky**

| | |
|---|---|
| Bank of Edmonson County | Brownsville |
| Central Bank, FSB | Lexington |
| Citizens National Bank of Paintsville | Paintsville |
| Citizens Union Bank of Shelbyville | Shelbyville |
| Edmonton State Bank | Bowling Green |
| First National Bank | Grayson |
| Home Federal Bank Corporation | Middlesborough |
| Madison Bank | Richmond |
| Salt Lick Deposit Bank | Owingsville |
| The Commercial Bank of Grayson | Olive Hill |
| The Monticello Banking Company | Liberty |
| United Bank & Trust Company | Versailles |
| United Community Bank of West Kentucky, Inc. | Morganfield |

**Louisiana**

| | |
|---|---|
| BancorpSouth Bank (3) | Tupelo, Miss. |
| M C Bank & Trust Co. | Morgan City |
| Rayne State Bank & Trust Company | Church Point |
| Resource Bank | Covington |
| Concordia Bank & Trust Company | Vidalia |
| Dryades Savings Bank, FSB | New Orleans |
| City Savings Bank and Trust | DeRidder |
| Fidelity Bank | Baton Rouge |
| State Bank & Trust Co. | Mandeville |
| Peoples State Bank | Many |

**Maine**

| | |
|---|---|
| Bangor Savings Bank | Unity |

| | |
|---|---|
| Bar Harbor Bank & Trust | Bar Harbor |
| Camden National Bank | Thomaston |
| Katahdin Trust Co. | Houlton |
| Merrill Merchants Bank | Bangor |
| Northeast Bank | Lewiston |
| Rivergreen Bank | York |
| Union Trust, a division of Camnden National Bank | Ellsworth |

**Maryland**

| | |
|---|---|
| New Windsor State Bank (2) | New Windsor |
| Provident Bank of Maryland (2) | |
| Bradford Bank | Baltimore |
| Centreville National Bank of Maryland | Centreville |
| Chevy Chase Bank, F.S.B. | Silver Spring |
| CitiMortgage | Frederick |
| Eastern Savings Bank, F.S.B. | Hunt Valley |
| Maryland Bankers Association | Annapolis |
| Sandy Spring Bank | Annapolis |
| Susquehanna Bank | Hunt Valley |

**Massachusetts**

| | |
|---|---|
| The Bank of Canton | Canton |
| Clinton Savings Bank | Clinton |
| Country Bank for Savings | Ware |
| Danversbank | Danvers |
| Dedham Institution for Savings | Dedham |
| Eagle Bank | Everett |
| Florence Savings Bank | Florence |
| Milford Federal Savings & Loan Association | Millford |
| The National Grand Bank of Marblehead | Marblehead |
| Salem Five Cents Savings Bank | Salem |
| South Shore Co-Operative Bank | Weymouth |
| South Shore Savings Bank | Weymouth |
| Strata Bank | Franklin |

**Michigan**

| | |
|---|---|
| Bay Port State Bank | Bad Axe |
| Chemical Bank | Midland |
| Citizens Bank | Flint |
| Citizens State Bank | New Baltimore |
| Crestmark Bank | Troy |
| Eaton Federal Savings Bank | Charlotte |
| Farmers State Bank of Munith | Munith |
| Fifth Third Bank | Grand Rapids |
| First Federal of Northern Michigan | Alanson |
| First National Bank of America | East Lansing |
| Firstbank-St. Johns | St Johns |
| Flagstar Bank, FSB | Lansing |

| | |
|---|---|
| Founders Bank & Trust | Grand Rapids |
| Hastings City Bank | Hastings |
| The Honor State Bank | Honor |
| Independent Bank | Bay City |
| Isabella Bank and Trust | Mount Pleasant |
| JPMorgan Chase Bank, National Association | Grosse Pointe |
| KeyBank National Association | Ann Arbor |
| Lake-Osceola State Bank | Baldwin |
| Macatawa Bank | Holland |
| Main Street Bank | Plymouth |
| Mayville State Bank | Mayville |
| Mercantile Bank of Michigan | Grand Rapids |
| Monroe Bank & Trust | Monroe |
| Northstar Bank | Bad Axe |
| Peoples State Bank | Madison Heights |
| Seaway Community Bank | St. Clair |
| The Stephenson National Bank and Trust | Menominee |
| The Miners State Bank | Iron River |
| Union Bank, Lake Odessa, Mich | Lake Odessa |
| United Bank of Michigan | Grand Rapids |

**Minnesota**

| | |
|---|---|
| Northview Bank (2) | Finlayson |
| Altura State Bank | Altura |
| Beacon Bank | Shorewood |
| Citizens Bank Minnesota | New Ulm |
| Community Pride Bank | Ham Lake |
| Eagle Bank | Glenwood |
| Farmers State Bank of Dent | Dent |
| Farmers State Bank of Hartland | Albert Lea |
| First National Bank of Bemidji | Bemidji |
| First State Bank of Ashby | Ashby |
| Great Northern Bank | St. Michael |
| Lake Region Bank | New London |
| Lakeview Bank | Lakeville |
| Minnwest Bank, M.V. | St. Cloud |
| Patriot Bank Minnesota | Lino Lakes |
| Riverview Community Bank | Otsego |
| Security State Bank of Hibbing | Hibbing |
| The Bank of Elk River | Elk River |
| The First National Bank of Cold Spring | Cold Spring |
| The First National Bank of Milaca | Milaca |
| United Community Bank | Perham |
| Wells Fargo Bank, National Association | Minneapolis |

**Mississippi**

| | |
|---|---|
| BancorpSouth Bank (12) | Tupelo |
| Bank of Franklin | Meadville |
| BankPlus | Jackson |
| Citizens Bank | Columbia |

| | |
|---|---|
| Community Bank, Ellisville | Ellisville |
| Farmers & Merchants Bank | Baldwyn |
| First State Bank | Waynesboro |
| Guaranty Bank & Trust Co. | Belzoni |
| Guaranty Bank & Trust Company | Belzoni |
| Hancock Bank | Gulfport |
| Magnolia State Bank | Bay Springs |
| Planters Bank & Trust Company | Indianola |
| PriorityOne Bank | Seminary |
| The Citizens National Bank of Meridian | Meridian |
| Trustmark National Bank | Jackson |

**Missouri**

| | |
|---|---|
| First Bank (2) | Creve Coeur |
| First State Community Bank (7) | Farmington |
| Southwest Missouri Bank (2) | Carthage |
| The Boone County National Bank of Columbia (2) | Columbia |
| U.S. Bank National Association (2) | Cincinnati, Ohio |
| Bank Midwest, National Association | Kansas City |
| The Bank of Fairport | Osborn |
| Bank of St. Elizabeth | St. Elizabeth |
| Bank Star of the LeadBelt | Festus |
| Bank Star One | Lake Ozark |
| Central Bank | Lebanon |
| Central Bank of Kansas City | Kansas City |
| Central Bank of Lake of the Ozarks | Osage Beach |
| Commerce Bank, National Association | Columbia |
| Community Bank of Pleasant Hill | Pleasant Hill |
| Empire Bank | Springfield |
| First Community Bank, Missouri | Poplar Bluff |
| First National Bank | Dexter |
| First National Bank | Camdenton |
| Guaranty Bank | Springfield |
| Hawthorn Bank | Clinton |
| Heritage State Bank | Nevada |
| Lamar Bank and Trust Company | Lamar |
| Legends Bank | Linn |
| Metropolitan National Bank | Springfield |
| Mid-Missouri Bank | Springfield |
| Montgomery Bank, National Association | Sikeston |
| New Era Bank | Fredericktown |
| Ozark Mountain Bank | Branson |
| Peoples Bank | Steelville |
| People's Bank of Seneca | Seneca |
| Peoples Bank of the Ozarks | Nixa |
| Peoples Savings Bank | Rhineland |
| Security Bank of Southwest Missouri | Cassville |
| Table Rock Community Bank | Kimberling City |
| The Bank of Missouri | Columbia |
| The Paris National Bank | Paris |
| United Bank of Union | Union |

| | |
|---|---|
| West Plains Bank and Trust Company | West Plains |

**Montana**

| | |
|---|---|
| Bank of the Rockies, National Association (3) | White Sulphur Springs |
| Stockman Bank of Montana (2) | Miles City |
| Bank of Glacier County, a Branch of Flathead Bank of Big Fork | Cut Bank |
| Community Bank, Inc. | Ronan |
| Community First Bank of Glendive | glendive |
| Eagle Bank | Polson |
| First Interstate Bank | Billings |
| First National Bank of Fairfield | Fairfield |
| First National Bank of Montana, Inc. | Kalispell |
| First State Bank of Forsyth | Forsyth |
| Glacier Bank of Whitefish | Whitefish |
| Little Horn State Bank | Billings |
| State Bank & Trust Co | Dillon |
| The Bank of Baker | Baker |
| The State Bank of Townsend | Townsend |
| U.S. Bank National Association | Hamilton |

**Nebraska**

| | |
|---|---|
| Cornerstone Bank (5) | York |
| Geneva State Bank (2) | Geneva |
| Team Bank, N.A. (2) | |
| The Jones National Bank & Trust Company of Seward (2) | Seward |
| Wells Fargo Bank, National Association (7) | Sioux Falls, S.D. |
| York State Bank & Trust Company (2) | York |
| Adams Bank & Trust | Grant |
| American National Bank of Fremont | Fremont |
| AmFirst Bank, National Association | Benkelman |
| Bank of Nebraska | Bellevue |
| Bruning State Bank | Bruning |
| World's Foremost Bank | Lincoln |
| Exchange Bank | Gibbon |
| F & M Bank, National Association | West Point |
| Farmers and Merchants Bank | Milford |
| First Bank and Trust Company | Minden |
| First Central Bank | Cambridge |
| First National Bank | Schuyler |
| First National of Nebraska, Inc. | Omaha |
| First National Bank | Kimball |
| First National Bank in Exeter | Exeter |
| First State Bank | Gothenburg |
| Great Western Bank | Omaha |
| Minden Exchange Bank and Trust Company | Minden |
| NebraskaLand National Bank | North Platte |
| Pinnacle Bank | Shelby |
| Platte Valley Financial Service Companies, Inc. | Scottsbluff |

| | |
|---|---|
| Platte Valley State Bank | Grand Island |
| Security National Bank | Laurel |
| Sherman County Bank | Loup City |
| State Bank of Table Rock | Humboldt |
| The Cattle National Bank and Trust Company | Seward |
| Town & Country Bank | Ravenna |

**Nevada**

| | |
|---|---|
| First National Bank of Nevada (2) | Reno |
| 1st Commerce Bank | North Las Vegas |
| Carson River Community Bank | Minden |
| Colonial Bank, National Association | Carson City |
| Heritage Bank of Nevada | Reno |
| Nevada State Bank | Las Vegas |
| Red Rock Community Bank | Las Vegas |
| Security Savings Bank | Henderson |
| Silver State Bank | Henderson |
| Southwest USA Bank | Las Vegas |
| Sun West Bank | Las Vegas |

**New Hampshire**

| | |
|---|---|
| Savings Bank of Walpole (3) | Walpole |
| First Colebrook Bank | Colebrook |
| Laconia Savings Bank | Laconia |
| Merrimack County Savings Bank | Contoocook |

**New Jersey**

| | |
|---|---|
| American Bank of New Jersey | Bloomfield |
| Bank of America, National Association | Old Bridge |
| Cape Bank | Linwood |
| Capital Bank of New Jersey | Vineland |
| Central Jersey Bank, National Association | Little Silver |
| Citi | Cherry Hill |
| Columbia Bank | Fair Lawn |
| Commerce Bank, National Association | Mount Laurel |
| First Hope Bank, A National Banking Association | Hope |
| Investors Savings Bank | Short Hills |
| Kearny Federal Savings Bank | Fairfield |
| Lakeland Bank | OAK RIDGE |
| Magyar Bank | New Brunswick |
| Millennium bcpbank, N.A. | Newark |
| Millington Savings Bank | Millington |
| New Millennium Bank | New Brunswick |
| Newfield National Bank | Newfield |
| Ocean City Home Bank | Ventnor |
| OceanFirst Bank | Toms River |
| Rumson-Fair Haven Bank and Trust Company | Fair Haven |
| Susquehanna Bank DV | Camden |

| | |
|---|---|
| Sussex Bank | Franklin |

**New Mexico**

| | |
|---|---|
| MyBank | Belen |

**New York**

| | |
|---|---|
| Banco Popular North America | New York |
| Citi | New York |
| Country Bank | New York |
| First National Bank of Scotia | Scotia |
| Five Star Bank | Warsaw |
| Habib American Bank | New York |
| M&T Bank Corporation | Buffalo |
| Madison National Bank | Hauppauge |
| Mitsubishi UFJ Trust and Banking Corporation | New York |
| Northfield Bank | Staten Island |
| Rhinebeck Savings Bank | Poughkeepsie |
| Ridgewood Savings Bank | Brooklyn |
| The Canandaigua National Bank and Trust Company | Canandaigua |
| The First National Bank of Long Island | Glen Head |
| The National Bank of Delaware County, Walton | Walton |
| Ulster Savings Bank | Kingston |
| Waterford Village Bank | Williamsville |

**North Carolina**

| | |
|---|---|
| Bank of America, National Association | Charlotte |
| Bank of Granite | Hickory |
| Carolina Premier Bank | Charlotte |
| Citi Smith Barney | Raleigh |
| CommunityONE Bank, National Association | Asheboro |
| First Bank | Troy |
| First Carolina State Bank | Rocky Mount |
| First National Bank of Shelby | Shelby |
| NewBridge Bank | Greensboro |
| Piedmont Federal Savings Bank | Winston-Salem |
| Randolph Bank & Trust Company | Asheboro |
| The East Carolina Bank | Engelhard |

**North Dakota**

| | |
|---|---|
| American State Bank & Trust Company of Williston | Williston |
| Cornerstone Bank | Fargo |
| Drayton State Bank | Drayton |
| Gate City Bank | Fargo |
| Harwood State Bank | Harwood |
| Lincoln State Bank | Hankinson |
| McKenzie County Bank | Watford City |

| | |
|---|---|
| Merchants Bank | Rugby |
| Unison Bank | Jamestown |

**Ohio**

| | |
|---|---|
| The Home Savings and Loan Company of Youngstown (2) | Youngstown |
| Benchmark Bank | Gahanna |
| Community First Bank, N.A. | Upper Sandusky |
| First Federal Bank of the Midwest | Defiance |
| First Federal Savings & Loan Association of Newark | Heath |
| First National Bank | Port Clinton |
| First National Bank | Pandora |
| Galion Building & Loan Bank | Galion |
| Greenville Federal | Greenville |
| Heartland Bank | Gahanna |
| Home National Bank | Racine |
| LCNB National Bank | Lebanon |
| North Side Bank & Trust Co. | Cincinnati |
| Second National Bank | Greenville |
| Spirit of America National Bank | Milford |
| The First National Bank of Dennison | Dennison |
| The First National Bank of Germantown | Germantown |
| The Killbuck Savings Bank Co. | Killbuck |
| The National Bank and Trust Company | Wilmington |
| The Ohio Valley Bank Company | Gallipolis |
| The Park National Bank | Newark |
| The Security National Bank and Trust Co. | Springfield |
| The State Bank and Trust Company | Defiance |

**Oklahoma**

| | |
|---|---|
| First United Bank and Trust Company (2) | Durant |
| Legacy Bank (7) | Hinton |
| American Bank | Wagoner |
| American Heritage Bank | Sapulpa |
| Armstrong Bank | Muskogee |
| Arvest Bank | Tulsa |
| Citizens Bank and Trust Company of Ardmore | Ardmore |
| Community State Bank | Dover |
| First Bank and Trust Company | Perry |
| First Capital Bank | Kingfisher |
| First National Bank and Trust Company of Okmulgee | Okmulgee |
| First State Bank | Anadarko |
| InterBank | Sayre |
| Oklahoma State Bank | Vinita |
| Payne County Bank | Perkins |
| Republic Bank & Trust | Norman |
| SpiritBank | Bristow |

| | |
|---|---|
| The Central National Bank of Alva | Alva |
| The Community State Bank | Poteau |
| The Eastman National Bank | Ponca City |
| The First National Bank and Trust Company, Chickasha, Oklahoma | Tuttle |
| The First National Bank in Altus | Altus |
| The Shattuck National Bank | Shattuck |
| The Stock Exchange Bank | Woodward |
| UMB Bank, N.A. | Oklahoma City |

**Oregon**

| | |
|---|---|
| Siuslaw Bank (2) | Florence |
| Albina Community Bank | Portland |
| Bank of Eastern Oregon | Heppner |
| Frontier Bank | Salem |
| LibertyBank | Eugene |
| Pacific Continental Bank | Eugene |
| South Valley Bank & Trust | Klamath Falls |
| U.S. Bank National Association | Woodburn |
| Willamette Community Bank | Albany |

**Pennsylvania**

| | |
|---|---|
| 1st Summit Bank | Johnstown |
| Adams County National Bank | Gettysburg |
| Bank of America, National Association | Brookhaven |
| Citi | Fairless Hills |
| Citizens & Northern Bank | Wellsboro |
| Columbia County Farmers National Bank | Bloomsburg |
| East River Bank | Philadelphia |
| The Ephrata National Bank | Ephrata |
| Fifth Third Bank | Pittsburgh |
| First Citizens National Bank | Mansfield |
| First Commonwealth Bank | Indiana |
| First National Bank & Trust Co | Newtown |
| First National Bank of Chester County | West Chester |
| Fulton Bank | Lancaster |
| KNBT | Hazleton |
| Manufacturers and Traders Trust Company | Harrisburg |
| Malvern Federal Savings Bank | Paoli |
| Mifflinburg Bank & Trust Co | Mifflinburg |
| NexTier Bank, N.A. | Evans City |
| NOVA Savings Bank | Berwyn |
| Penn Liberty Bank | Southeastern |
| Peoples State Bank of Wyalusing | Wyalusing |
| QNB Corp | Quakertown |
| Somerset Trust Company | Somerset |
| Sterling Financial Corporation | East Petersburg |
| Susquehanna Bank | Greencastle |
| Union National Community Bank | Lancaster |
| United Bank of Philadelphia | Philadelphia |

| | |
|---|---|
| Univest National Bank and Trust Co. | Souderton |

**Puerto Rico**

| | |
|---|---|
| Banco Popular de Puerto Rico | San Juan |
| Scotiabank de Puerto Rico | San Juan |

**Rhode Island**

| | |
|---|---|
| BankNewport | Newport |
| Milford Federal Savings & Loan Association | Woonsocket |
| The Washington Trust Company | Westerly |

**South Carolina**

| | |
|---|---|
| Carolina First Bank (2) | Greenville |
| Bank of Travelers Rest | Travelers Rest |
| BankGreenville | Greenville |
| The Conway National Bank | Conway |
| First Citizens Bank and Trust Company, Inc. | Rock Hill |
| First Federal Savings and Loan Association of Charleston | North Charleston |
| First Reliance Bank | Florence |
| GrandSouth Bank | Greenville |
| Palmetto State Bank | Hampton |
| The Peoples National Bank | Easley |

**South Dakota**

| | |
|---|---|
| Citi | Sioux Falls |
| Commercial State Bank | Wagner |
| Farmers State Bank | Tea |
| First Dakota National Bank | Yankton |
| First National Bank South Dakota | Yankton |
| MetaBank | Sioux Falls |
| Peoples State Bank | De Smet |
| Pioneer Bank & Trust | Spearfish |
| State Bank of Alcester | Alcester |
| Wells Fargo Bank, National Association | Sioux Falls |

**Tennessee**

| | |
|---|---|
| BancorpSouth Bank (8) | Tupelo, Miss. |
| Columbia South Bank d.b.a. Columbia South (5) | Parsons |
| First National Bank of Tennessee (4) | Livingston |
| First State Bank (2) | Union City |
| U.S. Bank National Association (2) | Cincinnati, Ohio |
| Bank of Bradford | Bradford |
| BankEast | Knoxville |
| Citizens Bank of Blount County | Maryville |
| Citizens Bank | Carthage |
| Citizens State Bank | Jasper |

| | |
|---|---|
| Clayton Bank & Trust | Covington |
| Community National Bank | Dayton |
| Decatur County Bank | Decaturville |
| First Citizens National Bank | Dyersburg |
| First Community Bank | Shelbyville |
| First Farmers and Merchants | Columbia, |
| First National Bank of McMinnville | McMinnville |
| First National Bank of Pulaski | Pulaski |
| First Tennessee | Memphis |
| First Volunteer Bank | Chattanooga |
| Foundation Bank | Buchanan |
| Heritage Bank & Trust | Columbia |
| Peoples Bank | Clifton |
| People's Bank of East Tennessee | Greenback |
| Progressive Savings Bank | Jamestown |
| Tennessee State Bank | Pigeon Forge |
| The Bank of Fayette County | Moscow |
| The Farmers Bank | Portland |
| The Hardin County Bank | Savannah |
| TriStar Bank | Dicksont |
| Wayne County Bank | Waynesboro |
| Wilson Bank & Trust | Lebanon |

**Texas**

| | |
|---|---|
| Pecos County State Bank (2) | Fort Stockton |
| Unity National Bank of Houston (2) | Houston |
| American National Bank | Wichita Falls |
| American State Bank | Lubbock |
| BancorpSouth Bank | Tyler |
| Bank of Fort Bend | Sugar Land |
| Capital Bank | Houston |
| Colonial Bank | Mesquite |
| Comanche National Bank | Comanche |
| Community Bank & Trust | Waco |
| Farmers State Bank Groesbeck, TX | Groesbeck |
| First Bank | Burkburnett |
| First Community Bank | Corpus Christi |
| First Community Bank Fort Bend, N.A. | Sugar Land |
| First Financial Bank | Mineral Wells |
| First National Bank of Gilmer | Gilmer |
| First National Bank of Mt.Vernon | Mt Vernon |
| First National Bank of Trenton | Farmersville |
| First Security State Bank | Cranfills Gap |
| First State Bank | Athens |
| First State Bank Central Texas | Goldthwaite |
| First Victoria National Bank | Victoria |
| Founders Bank | Sugar Land |
| Hereford State Bank | Hereford |
| Hillcrest Bank | Dallas |
| Main Street Bank | Kingwood |
| Moody National Bank | Galveston |

| | |
|---|---|
| OmniAmerican Bank | Fort Worth |
| Omnibank, National Association | Austin |
| Texas Star Bank | Tom Bean |
| The First State Bank | Columbus |
| Wells Fargo Bank, National Association | Brownsville |

**Utah**

| | |
|---|---|
| Centennial Bank (6) | Ogden |
| Zions First National Bank (2) | Salt Lake City |
| Bank of Utah | Ogden |
| Barnes Banking Company | Kaysville, UT |
| Lewiston State Bank | Lewiston |
| U.S. Bank National Association | Salt Lake City |
| Utah Independent Bank | Beaver |

**Vermont**

| | |
|---|---|
| Berkshire Bank | Rutland |
| Chittenden Bank | Burlington |
| Citizens Bank | Burlington |
| Merchants Bank | Northfield |
| Passumpsic Savings Bank | St. Johnsbury |
| Peoples Trust Company | St Albans |
| TD Banknorth | Burlington |

**Virginia**

| | |
|---|---|
| Provident Bank of Maryland (2) | Baltimore, Md. |
| Bank of Clarke County | Winchester |
| Bank of Lancaster | Kilmarnock |
| Bank of Mckenney | McKenney |
| Bank of the Commonwealth | Portsmouth |
| C&F Bank | Toano |
| Cardinal Bank | McLean |
| Central Virginia Bank | Powhatan |
| Chain Bridge Bank | McLean |
| Chesapeake Bank | Gloucester |
| Community Bank | Staunton |
| EVB | Glenns |
| Farmers & Merchants Bank | Edinburg |
| First Bank | Strasburg |
| First Capital Bank | Richmond |
| First Community Bank, N.A. | Emporia |
| First Market Bank | Richmond |
| HomeTown Bank | Roanoke |
| MainStreet Bank | Herndon |
| Northern Neck State Bank | Tappahannock |
| The Bank of Southside Virginia | Petersburg |
| United Bank | Winchester |
| Virginia Commerce Bank | Chantilly |

**Washington**

| | |
|---|---|
| Bank of Everett | Everett |
| Commencement Bank | Tacoma |
| Cowlitz Bank | Longview |
| Cowlitz/Bay Bank | Seattle |
| Issaquah Community bank | Issaquah |
| Olympia Federal Savings & Loan | Olympia |
| Sound Community Bank | Seattle |
| The Bank of the Pacific | Aberdeen |
| Yakima National Bank | Yakima |

**West Virginia**

| | |
|---|---|
| Bank of Mount Hope | Mount Hope |
| Fayette County National Bank | Fayetteville |
| Fifth Third Bank | Huntington |
| First Bank of Charleston | Charleston |
| First Century Bank, N.A. | Bluefield |
| First National Bank | White Sulphur Springs |
| Guaranty Bank & Trust Co. | Huntington |
| Ohio Valley Bank | Point Pleasant |
| WesBanco Bank | Parkersburg |

**Wisconsin**

| | |
|---|---|
| Community Business Bank (3) | Sauk City |
| First National Bank of Platteville (4) | Platteville |
| Fox Valley Savings Bank (2) | Fond du Lac |
| M&I Marshall & Ilsley Bank (2) | Milwaukee |
| Mound City Bank (3) | Platteville |
| Badger Bank | Fort Atkinson |
| Bank North | Wausaukee |
| Bank of Brodhead | Brodhead |
| Bank of Juda | Juda |
| Bank of Sun Prarie | Sun Prarie |
| Baylake Bank | Sturgeon Bay |
| Citizens Bank | Suring |
| Citizens State Bank | Cadott |
| Cleveland State Bank | Howards Grove |
| Community Bank of Cameron | Grantsburg |
| Farmers & Merchants Bank | Berlin |
| Farmers State Bank of Waupaca | Waupaca |
| First Banking Center | Lake Geneva |
| First National Bank | Berlin |
| First National Bank of Park Falls | Park Falls |
| Guaranty Bank | Racine |
| Hartford Savings Bank | Hartford |
| Independence State Bank | Elk Mound |
| Jackson County Bank | Black River Falls |
| Ladysmith Federal Savings and Loan | Ladysmith |
| Markesan State Bank | Waupun |

| | |
|---|---|
| Marshfield Savings Bank | Marshfield |
| National Exchange Bank and Trust | Fond du Lac |
| Oak Bank | Fitchburg |
| Peoples Bank | Elkhorn |
| Peshtigo National Bank | Peshtigo |
| Pioneer Bank of Wisconsin | Ladysmith |
| Premier Community Bank | Marion |
| PremierBank | Fort Atkinson |
| Richland County Bank | Richland Center |
| Royal Bank | Cobb |
| Rural American Bank | Dresser |
| Security Financial Bank | Durand |
| State Bank of Chilton | Chilton |
| State Bank of Cross Plains | Waunakee |
| State Bank of Florence | Wausaukee |
| The Bank of Belleville | Belleville |
| The International Bank of Amherst | Amherst |
| The State Bank of Viroqua | Viroqua |
| Union State Bank | Kewaunee |
| Unity Bank | Augusta |
| Wauwatosa Savings Bank | Wauwatosa |
| Wells Fargo Bank, National Association | Milwaukee |

**Wyoming**

| | |
|---|---|
| First Interstate Foundation | Sheridan |
| Liberty Organizers | Poulsbo |
| Platte Valley National Bank | Torrington |
| Rock Springs National Bank | Rock Springs |
| The Jackson State Bank & Trust | Jackson |
| Wyoming National Bank | Riverton |

110TH CONGRESS
2D SESSION

# H. RES. 1079

Supporting the goals and ideals of Financial Literacy Month 2008, and for other purposes.

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IN THE HOUSE OF REPRESENTATIVES

APRIL 3, 2008

Mr. HINOJOSA (for himself and Mrs. BIGGERT) submitted the following resolution; which was referred to the Committee on Financial Services

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# RESOLUTION

Supporting the goals and ideals of Financial Literacy Month 2008, and for other purposes.

Whereas personal financial literacy is essential to ensure that individuals are prepared to make informed financial choices, as well as manage money, credit, debt, and risk and become responsible workers, heads of households, investors, entrepreneurs, business leaders, and citizens;

Whereas personal financial management skills and lifelong habits begin to develop during childhood;

Whereas a study completed in 2006 by the Jump$tart Coalition for Personal Financial Literacy found that high school seniors know less about principles of basic personal finance than did high school seniors 7 years earlier, and the average scores in both years were failing grades;

Whereas the 2007 Survey of the States by the National Council on Economic Education found that 49 States include the subject of economics and 40 States include the subject of personal finance in their elementary and secondary education standards, up from 48 and 31 States, respectively, in 2002;

Whereas 55 percent of college students acquire their first credit card during their first year in college, and 92 percent of college students acquire at least 1 credit card by their second year in college, yet only 26 percent of people between the ages of 13 and 21 reported that their parents actively taught them how to manage money;

Whereas the personal savings rate in the United States was zero percent at the end of the fourth quarter of 2007, which puts it among the lowest since the government began collecting the data in 1959;

Whereas although more than 42,000,000 people in the United States participate in qualified cash or deferred arrangements described in section 401(k) of the Internal Revenue Code of 1986 (commonly referred to as "401(k) plans"), a Retirement Confidence Survey conducted in 2004 found that only 42 percent of workers surveyed have calculated how much money they will need to save for retirement and 37 percent of workers say that they are not currently saving for retirement;

Whereas the average baby boomer has only $50,000 in savings apart from equity in their homes;

Whereas a study by the American Institute of Certified Public Accountants found that 55 percent of people between the ages of 25 and 34 maintain an interest-bearing ac-

count or other savings instrument, a decrease of 10 percent since 1985;

Whereas the April 2007 National Foundation for Credit Counseling consumer financial literacy survey found that only 39 percent of American consumers keep close track of their expenses; less than half have ordered their credit report; and one-third do not know where to go for financial advice;

Whereas studies show that as many as 10,000,000 households in the United States are "unbanked" or are without access to mainstream financial products and services;

Whereas expanding access to the mainstream financial system provides individuals with lower-cost and safer options for managing finances and building wealth and is likely to lead to increased economic activity and growth;

Whereas public, community-based, and private sector organizations throughout the United States are working to increase financial literacy rates for Americans of all ages and walks of life through a range of outreach efforts, including media campaigns, websites, and one-on-one counseling for individuals;

Whereas at least 6,500 bankers will teach savings skills to young people on April 29, 2008, during Teach Children to Save Day, which was started by the American Bankers Association Education Foundation in April of 1997 and has helped more than 45,000 bankers teach savings skills to nearly 2,300,000 young people;

Whereas staff from America's credit unions will make presentations to young people at local schools on financial topics such as student loans, balancing a checkbook, and

auto loans during National Credit Union Youth Week, which will be held April 20–26, 2008;

Whereas Members of the United States House of Representatives established the Financial and Economic Literacy Caucus (FELC) in February 2005 to (1) provide a forum for interested Members of Congress to review, discuss and recommend financial and economic literacy policies, legislation, and programs, (2) collaborate with the private sector, and nonprofit and community-based organizations, and (3) organize and promote financial literacy legislation, seminars, and events, such as "Financial Literacy Month" in April, 2008, and the annual "Financial Literacy Day" fair on April 28, 2008; and

Whereas the National Council on Economic Education, its State Councils and Centers for Economic Education, the Jump$tart Coalition for Personal Financial Literacy, its State affiliates, and its partner organizations, and JA Worldwide have designated April as Financial Literacy Month to educate the public about the need for increased financial literacy for youth and adults in the United States: Now, therefore, be it

*Resolved,* That the House of Representatives—

(1) supports the goals and ideals of Financial Literacy Month, including raising public awareness about financial education;

(2) recognizes the importance of managing personal finances, increasing personal savings and reducing indebtedness in the United States; and

(3) requests that the President issue a proclamation calling on the Federal Government, States,

localities, schools, nonprofit organizations, businesses, other entities, and the people of the United States to observe the month with appropriate programs and activities with the goal of increasing financial literacy rates for individuals of all ages and walks of life.

○

Written Testimony of the

**AMERICAN FINANCIAL SERVICE ASSOCIATION EDUCATION FOUNDATION**

Susie Irvine
President and CEO

Submitted April 15, 2008
To The
**HOUSE FINANCIAL SERVICES COMMITTEE**

For Its
**Hearing on Financial Literacy and Education**

The AFSA Education Foundation thanks the members of the House Financial Services Committee for their interest in financial literacy education. We understand that the purpose of today's hearing is to examine the effectiveness of governmental and private sector initiatives. With this in mind, we believe the committee will find that *MoneySKILL®*, the Foundation's online personal finance course for high school students, is an outstanding example of the private sector providing an exemplary curriculum on personal finance.

The AFSA Education Foundation is the financial literacy arm of the American Financial Services Association – the national trade association for the consumer credit and financeindustry, that includes among its 350 member companies many mortgage lenders. The Foundation has been a leader in recognizing the need for personal finance education since the mid 1990s and is a founding member of the national Jump$tart Coalition for Personal Financial Literacy. AFSA itself and the Education Foundation share a commitment to financial literacy education. Our education programs focus on empowering the individual to make sound financial decisions and avoid abusive or fraudulent loan situations.

At the Education Foundation, we run a number of programs targeting people of all ages and in all walks of life, focused on teaching the basics and complexities of personal finance. Among these, and in many ways chief among our programs, is *MoneySKILL* – the foundation's free online personal finance course aimed at the millions of high school students who graduate each year without an understanding of credit cards, budgeting, insurance or other money management fundamentals. Vital to this program are the steps we take to train teachers so that they can maximize its effect.

*MoneySKILL* was created initially and carried to its current level of dissemination in response to an identified need for financial literacy education reflected in the disturbing results of Jump$tart's six nationwide surveys of high school seniors. These surveys showed that high school seniors nationwide scored slightly above 48 percent on a test of basic financial literacy skills – a failing grade. This research has established that our young adults do not possess the tools and knowledge of personal finances required to get started in life without financial mishap.

These results should be given some perspective – the teen market has immense buying power. In 2006 alone, teenagers spent over $179 billion on products and services. The majority of this money – 58% – came from parents. *MoneySKILL* intends to ensure that this money is spent wisely.

The 34-module course covers the content areas of income, expenses, assets, liabilities and risk management. After each concept is presented, the student is challenged by a case, problem or question which allows him or her to demonstrate understanding. The student is told whether his or her answer is correct. To evaluate effectiveness of both content and method of presentation, students are give pre- and post-tests, and are evaluated by module test scores.

To our knowledge, *MoneySKILL* is the only financial literacy curriculum with a student life-simulation module that requires students to project their own life expectancies regarding jobs, neighborhoods, cars, education, marriage and children. The simulation allows students to incorporate the *MoneySKILL* personal finance concepts into their everyday lives and challenges them to make the concepts their own, providing them with skills that will last a lifetime.

*MoneySKILL* is designed to be used as all or part of a grade for courses in business, economics, math, social studies, or other courses where personal finances are taught. *MoneySKILL* can be assigned as homework, a project to be completed outside the class or during the class as a group. Students can access *MoneySKILL* from any computer that has an online connection and as many times a day as they want.

Early on, the Foundation determined that the best way to instruct teachers in the most effective use of *MoneySKILL* is through training sessions. These workshops familiarize teachers with the curriculum and the easy-to-use administrative Web site, including the registration pages for teachers, classes and students and an electronic grade book. When possible, these sessions are offered in computer labs so teachers can experience hands-on instruction and one-on-one guidance for using *MoneySKILL*.

Personal finance is a technical area, and not all schools have teaching staff qualified to teach the subject matter. In addition, teachers who wish to provide financial literacy education have historically lacked the necessary resources.. *MoneySKILL* aims to address these challenges while meeting the state academic content standards for personal financial literacy. We are experiencing the snowball effect from teachers who are quite excited, but desperate to find just such a resource for teaching personal finance concepts.

In 2007, the AFSA Education Foundation offered teacher training sessions in 25 states reaching more than 2,000 teachers. These workshops were coordinated with state Jump$tart Coalitions for Personal Financial Literacy, regional and state Business Education Associations, the Wisconsin Office of Financial Literacy, the University at Buffalo and the National Academy of Finance which has a presence in 40 states and the

District of Columbia. This year's outreach to teachers will surpass that in 2007, with more states and workshops offered nationwide.

More than 5,600 teachers from all 50 states and more than 20 foreign countries have registered to use *MoneySKILL* to teach students personal finance concepts. After a recent revision in 2007, student enrollments have increased by more than 100% and teacher registrations have increased 63%.

In March 2008, the University at Buffalo School of Management hosted MoneySKILL Mania, a financial literacy competition for high school juniors and seniors in western New York. Fourteen high schools and more than 70 students participated in the event designed to increase awareness of *MoneySKILL* and to reward students and teachers who were already using the course.

As part of a concerted initiative to promote the inclusion of financial education in state standards and required courses, the Jump$tart Coalition for Personal Financial Literacy and CitiFinancial's Office of Financial Education recently created an online map that serves as a state-by-state report card on financial education requirement located at www.jumpstart.org/state_legislation/index.cfm. Three states – Missouri, Utah, and Tennessee – require at least one semester course devoted to personal finance. Fifteen states – Idaho, Oklahoma, Louisiana, South Dakota, Texas, Illinois, Kansas, Ohio, New Hampshire, New York, West Virginia, Virginia, North Carolina, South Carolina and Georgia – require personal finance instruction be incorporated into other subject matter. The remaining states have no requirement, but financial education can be offered as an elective.

In Spring 2007, the National Council on Economic Education released a survey of the states on Economic, Personal Finance and Entrepreneurship Education. The results reveal that states haven't made enough progress on their commitment to offer or require personal finance and economic education in our nation's schools. Personal finance is now included, to at least some extent in the educational standards of 40 states; 28 states require these standards to be implemented. Unfortunately, only seven states require students to take a personal finance course as a high school graduation requirement and only nine states require the testing of student knowledge in personal finance.

There is really no excuse for this. Our goal is to make high quality, detailed personal finance education available immediately to students throughout the United States without any financial burden on the schools, teachers and students.

Much, much more must be done. We must start teaching personal finance concepts in the elementary grades. Much like reading and arithmetic, the basic concepts of a personal finance course will gain momentum and relevance as students' knowledge evolves.

The AFSA Education Foundation thanks this committee for its work to advance the cause of financial literacy education. Please be assured of our commitment to work with you to get this done. Together, we can strive to make sure that young, educated, informed adults enter the marketplace equipped to make sound financial decisions and avoid the pitfalls of over-indebtedness, home foreclosure and bankruptcy.

**WRITTEN STATEMENT OF THE**
**NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION**
U.S. House Committee on Financial Services
"Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives"
April 15, 2008

**Introduction to NASAA:**
The North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. It was organized in 1919 and is a voluntary association with a membership consisting of 67 state, provincial and territorial securities regulators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

**NASAA Investor Education Section:**
The NASAA Investor Education Section was created in 1997 by the NASAA Board of Directors to help support the financial education efforts of our members. The Investor Education Section, along with a network of professionals from across the NASAA membership, is responsible for developing, coordinating, delivering, and supporting financial education initiatives that can be utilized by state securities regulators in their ongoing endeavor to improve the level of financial literacy in their jurisdictions. Currently, the Section has five focus areas: Youth Outreach, Senior Outreach, Affinity and Military Outreach, General Education Program Coordination, and a new area dedicated to working adults (pre-retirees) and their families called the Sandwich Generation.

**At the Grassroots Level:**
Most state and provincial securities regulators have established investor education departments or divisions within their agencies. The result is a unique network of dedicated professionals delivering financial education at the grassroots level throughout North America. Over the past year and a half, NASAA members have reached more than 197,902 consumers through 1,227 presentations. Our financial education professionals can be found at work in such venues as the classroom, the workplace, senior centers, and at trade and professional organization events. They partner with teachers, employers, and peer-based volunteer groups to deliver financial education to our constituents of all ages. As part of the effort to educate our nation's youth, in April 2008, state securities division staffs will join in celebrating "Financial Literacy Month" by visiting schools throughout their state to teach students about personal finance, the capital markets, investment choices and fraud. This year, NASAA is expanding outreach to law enforcement by providing them with basic knowledge of securities laws so they can assist the fraud victims they encounter. Throughout the country, securities regulators will share Securities 101 Handbooks and presentations to educate law enforcement officials with methods to handle the investment fraud complaints they receive.

During Financial Literacy Month 2007, NASAA launched an investor education podcast series titled, "The Alert Investor," which has served as a valuable resource for the public

to learn about investing wisely, avoiding fraud and how to exercise their rights as investors. The series, which is now available on iTunes, has grown in popularity and currently features 11 episodes and has been downloaded nearly 10,000 times by listeners.

**Specific Examples of Successful State and Provincial Programs:**
To better frame the nature of our work in the area of financial education, we share a few highlights of several of our member's financial education initiatives focusing on youth, senior and affinity and military outreach.

***Youth Outreach***
Teaching youth the principles of sound investing and fraud prevention is the thrust of a new NASAA produced program targeted to high school students titled, "FSI: Fraud Scene Investigator." FSI is an interactive online investor education program that teaches and empowers students how to detect and stop investment fraud. The FSI program is designed to help students learn how to fight fraud firsthand, by delving into newspaper stock tables, researching companies through online news, and deciphering the truth of an investment from fraudulent sales pitches. In the initial FSI program titled, "Suitable Investments," students help uncover a million-dollar fraud in progress and put the mysterious con man, "Mr. X," behind bars. NASAA's grassroots member investor education network is working with educators to integrate the FSI program into schools across the nation. Already, teachers in Arizona to West Virginia are finding students are getting hooked on the program — teachers like the curriculum and students want to know what's next in the interactive game.

***Senior Outreach***
In the area of Senior Outreach, our California member has developed a highly successful anti-fraud education program that utilizes peer-based volunteerism. The Seniors Against Investment Fraud program (SAIF) provides seniors with a toll free call center to utilize before purchasing or investing in any type of "financial" product. The SAIF program takes a leadership role in alerting and educating Californians over the age of 50 about investment and telemarketing fraud and how to avoid being victimized. The state of Florida developed a similar grass roots program, which uses a "train the trainer approach" to utilize regional directors and train Senior Sleuths to spot crime in their own communities and present fraud prevention seminars. Our member in Pennsylvania has also found success by creating a Senior Fraud Bingo game, which serves as an interactive way to engage and teach seniors practical tips on fraud prevention.

***Affinity & Military Outreach***
In times of heightened deployment, United States service members have become targets of financial scams. These scams can directly affect unit morale and readiness as well as military service members' credit history and military career. To combat this fraud head on, our Pennsylvania member developed Operation ASAP, which stands for Armed Services Assets Protection Program. The program, run by the Pennsylvania Securities Commission, is an online resource to give military personnel and their family members the tools they need to invest wisely and avoid scams. Other NASAA members have

created similar programs such as California's "Troops Against Predatory Scams," or TAPS.

One of our Canadian members in British Columbia decided to confront religious affinity fraud by creating their own God's Fraud Squad. The program, developed by the British Columbia Securities Commission and supported through the BCSC Education Fund, raises awareness and protects religious congregations from affinity fraud. Two ordained chaplains, trained by the BCSC, provide investor education to congregations of all denominations and caution them to guard against those looking to "fleece the flock." Our New Mexico member has a similar initiative called "Preying on those who Pray."

**Coordination of Efforts and Partnerships:**

The newly created President's Advisory Council on Financial Literacy offers an opportunity to coordinate the efforts of NASAA's grassroots network with the initiatives undertaken at the national level. We encourage all 16 members of this new Advisory Council to consider the resources and experience state securities regulators and their staffs have at the local level when pursing new programs and partnerships.

NASAA was honored to be a panelist in the April 17, 2007 inaugural meeting of the National Financial Education Network. The Federal Literacy Education Commission stated this network is intended to create an open dialogue and advance financial education at the state and local level. It is essential that this National Financial Education Network be fully integrated into the framework of how the Commission operates, thus utilizing and mobilizing the vast resources of both state and private and nonprofit organizations and their extensive networks. Full integration of the National Financial Education Network would ensure that events held across the nation include all members of the financial literacy community that wish to participate.

Complete coordination with federal, state and local government and private organizations should not be considered just a step in the national strategy, but viewed as a crucial and integral part of the Commission and Advisory Council's mandate. The existing grassroots network available to both bodies provides the entire picture of financial literacy efforts that we believe Congress envisioned when creating the Financial Literacy Education Commission and when President Bush created the President's Advisory Council on Financial Literacy in January 2008. Both groups have a unique opportunity to unite financial literacy efforts and foster dialog. Nothing short of complete cooperation with these groups will fully constitute a fully integrated National Financial Literacy Strategy.

**Partnering Relationships/Collaborations:**

NASAA looks for opportunities to join forces with other members of the financial education community. NASAA believes it is essential to pool our resources and share our expertise on these joint ventures. Recently, NASAA partnered with the Consumer Federation of America (CFA), Financial Planning Association (FPA), Investment Adviser Association (IAA) and the CFA Institute in offering the "Cutting through the Confusion" brochure to provide basic information to find an investment services provider. NASAA joined the Consumer Federation of America as a partner in their

annual "America Saves Week 2008," bringing a fraud prevention and investor protection focus to the national campaign.

NASAA members seek other avenues of educational outreach to specific groups like senior investors through events such as the Senior Olympics and the National Council on Aging Conference. On a regular basis, our members work with the American Savings Education Council, the Councils for Economic Education, and are involved in state level Jump$tart coalitions.

State securities regulators meet annually with the financial education professionals from the Securities and Exchange Commission (SEC) to engage in dialogue about our respective programs and progress in the ongoing quest to improve financial literacy. This meeting gives us an opportunity to learn what's new or under development, helps us identify gaps in financial education, leverage resources of our financial education colleagues, and further hone best practices. NASAA and the SEC continue to build on their joint partnership to protect senior investors. In September 2007, NASAA and the SEC held their second annual Seniors Summit, where the results of "free lunch" examinations were released, and we spotlighted the abusive sales practices and misuse of designations used against seniors. Plans are underway for a third Seniors Summit this fall where the goal is to identify effective practices used by financial services firms in dealing with senior investors, and to provide information about these practices.

**Resources:**
The NASAA network of financial education professionals can be an excellent delivery vehicle for state/federal collaborative education programs.

NASAA offers a wide range of investor education resources on its website. Visitors to the site will find a wealth of information to help them build both financial knowledge and financial security. Among other educational experiences on the NASAA website, visitors can utilize the Senior Investor Resource Center and the NASAA Fraud Center, and locate state specific resources available through individual NASAA members. These resources, along with brochures, investor alerts and other financial education materials like the spring 2008 NASAA Investor Ed Newsletter are available in the Investor Education Section of the NASAA website, www.nasaa.org. In addition, NASAA developed and funds the Investing Online Resource Center, www.investingonline.org.

**Conclusion:**
State securities regulators have traditionally been, and remain, a highly effective resource in the pursuit of greater financial literacy. They represent a nationwide network of highly trained, unbiased, non-commercial experts in financial services, products and fraud avoidance. They are on the front lines of financial education initiatives in every state, translating Wall Street to Main Street for small investors throughout the country. NASAA and its members welcome the opportunity to work more closely with the House Financial Services Committee and its members in their ongoing efforts to improve the level of financial literacy throughout the country.




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April 14, 2008

The Honorable Rubén Hinojosa
2463 Rayburn House Office Building
United States House of Representatives
Washington, D.C. 20515

Dear Representative Hinojosa:

As you prepare your remarks for the Tuesday, April 15 hearing of the House Financial Services Committee on "Financial Literacy and Education: The Effectiveness of Governmental and Private Sector Initiatives," the National Youth Involvement Board (NYIB) would like you to be aware of the good works by not-for-profit credit unions nationwide.

The NYIB is a volunteer network of credit unions, affiliated organizations, and other enthusiasts committed to providing young people the financial fundamentals they need for lifelong success. We work together on youth-specific services, classroom presentations, and member education, and our valued relationships include Junior Achievement Worldwide, the National Endowment for Financial Education, and many state affiliates of the national Jump$tart Coalition.

Our primary objectives include collection of credit unions' financial education presentations to youth—statistics that should be of particular interest to the committee. Our online tracking system shows that from July 1, 2000 to today, 1,511 credit union professionals have made 47,729 presentations, reaching a total of 1,437,510 young people. Within the past twelve months, 467 professionals have made 8,170 presentations to reach a total of 270,912 youth.

While we are proud of these numbers, we must also qualify that they are only those presentations voluntarily reported on our website. We are optimistic there are far more credit union volunteers who are doing their part to educate young people and either do not have the time to report or are unaware of our collection effort.

We at the National Youth Involvement Board are committed fulfilling young Americans' need for personal financial knowledge and will continue our volunteer efforts to reach more this year and beyond. Thank you for the opportunity to share our input with the House Financial Services Committee, and please let us know if we may be of further support.

Sincerely,

John Faries
Chairman
National Youth Involvement Board

*Helping today's youth become financially savvy individuals and loyal credit union members.*

**Statement for the Record**
**Mr. Richard Woods, Senior Vice President, Corporate Affairs, Capital One**

**Hearing Entitled: Financial Literacy and Education:**
**The Effectiveness of Governmental and Private Sector Initiatives**

**April 15, 2008**

Chairman Frank and Ranking Member Bachus, thank you for holding this important hearing today on the role of financial literacy and examining the effectiveness of the various programs and initiatives underway to address this critical issue. I would also like to thank Congressman Hinojosa and Congresswoman Biggert for longstanding commitment to financial education and leadership of the Financial and Economic Literacy Caucus.

At Capital One we share your view that financial literacy is vitally important to the financial well-being of all Americans and we are committed to helping improve financial literacy skills in communities across the country. Through partnerships with leading non-profit organizations, Capital One has developed a multi-faceted set of programs to promote financial literacy and deliver financial education tools, particularly among low- and moderate-income populations.

Highlights of Capital One's comprehensive efforts to provide access to financial education and our innovative partnership efforts include:

***Junior Achievement***
Capital One partners with Junior Achievement (JA) on a number initiatives intended to help prepare students from low- and moderate-income families to make smart financial decisions as adults.

- **Finance Park:** Capital One has an on-going partnership with Junior Achievement Worldwide to create a signature program –*Capital One/Junior Achievement Finance Park* – to introduce fifth through eighth-grade students to money management basics. This unique, mobile program travels to select cities to provide students the opportunity to experience a day-in-the-life of an adult. The goal is to prepare students to make wise financial decisions.

- **Sliding into Succe$$:** Capital One, Junior Achievement and the Washington Nationals baseball team have also partnered to create the *Sliding into Succe$$* program bringing financial education to hundreds of fifth through seventh grade students from Washington, D.C. Public Schools. The students work together to make talent decisions for their own fantasy baseball team – calculating batting averages using individual player statistics and evaluating various trade options and player selections – while staying within a specified budget.. D.C. Nationals All-Star relief pitcher Chad Cordero has served as program spokesperson and visited with groups of students, parents and teachers from each of the

participating 15 Washington D.C. schools during pre-game outings at RFK Stadium to which the groups also received game day tickets.

- **JA in a Day:** Hundreds of Capital One associates delivered financial literacy education to every classroom in three elementary schools in Washington, D.C.

***MoneyWi$e Consumer Action Partnership***

Capital One partners with Consumer Action, a national non-profit organization dedicated to advancing consumer rights through education, to produce and distribute the *"MoneyWi$e"* series of financial education materials to consumers. The *MoneyWi$e* program includes informational brochures, train-the-trainer guides and lecture curriculums.

One of our recent workbooks was designed to guide parents through the process of teaching their teens the basics of money management. The tool includes exercises ranging from how to plan a budget to how to write a check and, like all other MoneyWi$e materials, it is available at no cost on the Web (www.money-wise.org) and by mail. Among other issues, Capital One and Consumer Action partnership has also focused on the following topics:

- *General credit awareness and credit*
- *Homeownership and homebuyer awareness*
- *Military financial education*
- *Identity theft and fraud protection and awareness*
- *Elder fraud prevention*

Working with Consumer Action, Capital One has provided more than 1.5 million free brochures to consumers in five languages. In addition, the *MoneyWi$e* "train the trainer" seminars have been given to more than 450 community organizations, across 30 states.

***MoneyWi$e University***

To help give students the information they need to become financially responsible, Capital One has introduced MoneyWi$e University, a program to teach responsible spending and basic money management skills to college-aged students. Developed in partnership with Visa and first introduced on campuses in 2002, the MoneyWi$e University curriculum educates college students about the fundamental elements of credit and budget management. MoneyWi$e University has provided personal instruction to hundreds of students on five campuses across the country. Information about *MoneyWi$e University* can be found online at www.moneywise-u.com.

***Jump$tart Coalition for Personal Financial Literacy***

Capital One is a proud sponsor of the Jump$tart Coalition's efforts to help ensure that basic money management skills are attained in American schools. Capital One has partnered with the Jump$tart Coalition to encourage the addition of basic personal financial management skills to the K-12 educational curriculum. Capital One also played a very active role in helping to form a Coalition in Virginia and has co-sponsored the Coalition's Annual Summit for the past two years.

***Branch Banking Financial Education***

Capital One Bank staff throughout the New York area conduct a range of financial education programs for local community members. The bank offers individual program modules targeted for elementary, middle school and high school-aged children and a program to teach basic banking to adults as part of workplace education initiatives.

- **Money Matters** is a four-week program that introduces elementary aged-children to the basic principles of managing money. The program includes three separate modules: one for grades 3 and 4; one for grades 4 and 5; and one for middle school.

- **Banking Tools for College and Life** addresses financial concerns at a critical point in students' lives. Capital One Bank staff will impress upon the students the seriousness of incurring debt. Students will learn about the different types of credit and, perhaps even more importantly, how to protect themselves from identity theft.

- **Student Run Bank Branch**: In 2007, Capital One opened a bank branch at the Bronx-based Fordham Leadership Academy's Theodore Roosevelt Complex. The fully functioning branch is run by the Academy's seniors under the supervision of Capital One Bank management. The student bankers are participants in the Fordham Leadership Academy's Virtual Enterprise Program -- a business simulation program between the school and the business community. In its second year, the program provides an opportunity for select students to work with North Fork Bank to connect practical knowledge and skills learned in the Virtual Enterprise classroom with structured work outside the classroom.

Through our partnerships with leading national non-profit organizations, the volunteer efforts of Capital One associates and our grassroots approach to training non-profits to lead our programs on a local level, Capital One has established a broad and comprehensive approach to Financial Literacy. Additional information and links to all of our programs can be found at www.capitalone.com/financialeducation.

Again, I would like to thank the Committee for holding this important hearing and to let you know, that we at Capital One remain committed to bettering the financial literacy skills in our communities.

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*April 2008*


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## I. OVERVIEW OF DUTIES OF THE FINANCIAL LITERACY AND EDUCATION COMMISSION

The Financial Literacy and Education Improvement Act, which is in Title V of the Fair and Accurate Credit Transactions (FACT) Act of 2003 (P.L. 108-159), was enacted on December 4, 2003, and established the Financial Literacy and Education Commission (the Commission) to improve the financial literacy and education of persons in the United States. Title V named the Secretary of the Treasury (Treasury) as Chairperson of the Commission and mandated the Commission's composition to include the heads of the Office of the Comptroller of the Currency (OCC); Office of Thrift Supervision (OTS); Board of Governors of the Federal Reserve System (FRB); Federal Deposit Insurance Corporation (FDIC); National Credit Union Administration (NCUA); Securities and Exchange Commission (SEC); Departments of Education (ED), Agriculture (USDA), Defense (DoD), Health and Human Services (HHS), Housing and Urban Development (HUD), Labor (DOL), and Veterans Affairs (VA); Federal Trade Commission (FTC); General Services Administration (GSA); Small Business Administration (SBA); Social Security Administration (SSA); Commodity Futures Trading Commission (CFTC); and Office of Personnel Management (OPM).

Congress designated the Treasury's Office of Financial Education to lend its expertise and provide primary support to the Commission.

The purpose of the Commission is to "improve the financial literacy and education of persons in the United States through development of a national strategy to promote financial literacy and education" (Title V, Sec. 513). The principal duties of the Commission include:

1) encouraging government and private sector efforts to promote financial literacy;
2) coordinating financial education efforts of the Federal government;
3) developing a national strategy to promote financial education;
4) establishing a national financial education Web site to provide a coordinated point of entry for information about Federal financial literacy and education programs and grants; and
5) establishing a toll-free hotline available to the public seeking information about issues pertaining to financial literacy and education.

*This is the third annual SAFE Report being submitted to Congress by the Commission. The report contains information regarding the implementation of the Commission's principal duties as set forth in Title V. The following sections provide further detail of current and future activities in which the Commission is or will be involved.*

## II. DEVELOPMENT, IMPLEMENTATION AND REVIEW OF THE NATIONAL STRATEGY FOR FINANCIAL LITERACY, *TAKING OWNERSHIP OF THE FUTURE*

Title V required the Commission to "develop a national strategy to promote basic financial literacy and education among all American consumers"... and "coordinate Federal efforts to promote basic financial literacy and education." To comply with that directive, Treasury worked with the other Commission members and produced *Taking Ownership of the Future: The National Strategy for Financial Literacy* ("the *Strategy*"). The *Strategy* assesses the current state of financial education efforts and provides a plan to help improve financial literacy across the country. Links to the *Strategy* in English and Spanish and related materials can be found online at http://www.treas.gov/offices/domestic-finance/financial-institution/fin-education/reference-materials.shtml.

### A. *Background on Development of the Original Strategy for Financial Education*

Following its establishment, the Commission took these steps to develop the *Strategy*.

#### 1. Establishing the National Strategy Working Group

At the Commission's May 20, 2004 public meeting, Treasury invited all members of the Commission to participate in a National Strategy Working Group (the Working Group). Of the 20 Federal agencies which comprise the Commission, 13 volunteered to serve as members of the Working Group to develop the national strategy. The following agencies volunteered for this task: Treasury, OCC, FRB, FDIC, SEC, ED, DOL, DoD, HHS, FTC, GSA, SSA, and OPM.

#### 2. Collaboration of the National Strategy Working Group

The Working Group meets on a regular basis throughout the year to assess the *Strategy* and identify possible areas for improvement. The Working Group met on 11 different occasions during the drafting of the original *Strategy*. Members were encouraged to be critical and suggest ideas to improve the *Strategy*.

Treasury also coordinated several individual calls and conference calls with members of the Working Group to provide guidance and support for timely completion of assigned tasks, particularly to those members assigned to conduct research and develop outlines of the *Strategy* chapters. The agencies provided background research and several outline iterations for each chapter.

#### 3. Call for Public Comment on the *Strategy*

Treasury published a *Federal Register* notice on August 26, 2004 requesting public comments. The commenting period ran until October 31, 2004. The notice asked responders to focus on three areas of interest: (1) What are the three most important issues that the *Strategy* should address and why?; (2) What existing resources may be

used to address those issues, and how could they be employed?; and (3) What are the best ways to improve financial literacy and financial education in the United States?

Treasury received 158 responses from a variety of sources, including academic institutions, government entities, lenders, other non-lender commercial entities, non-profits, and individuals. These comments were taken into consideration in the development of the *Strategy*.

4. **Sector-Specific Public Meetings**

Title V indicated that the Commission "may hold… such other meetings as the Chairperson sees fit to carry out this title." It additionally provided that the Commission "shall develop a national strategy to promote basic financial literacy and education among all American consumers…" and that the strategy shall provide for "participation by State and local governments and private, nonprofit, and public institutions in the creation and implementation of such strategy."

In 2005, the Commission hosted six sector-specific meetings open to the public. These meetings were hosted by several Commission members (SEC, FDIC, OPM, DoD, HHS and Treasury) and Members of Congress. As described above, Treasury requested public comments through a *Federal Register* Notice to aid in the development of the *Strategy*. The organizations and individuals that responded to Treasury's request for public comment were invited to participate in the discussion at one of the six sector-specific meetings.

The sector-specific public meetings covered a wide range of topics related to financial literacy and were all held in 2005. Among the topics of financial literacy and education discussed were specific factors of financial literacy, effective delivery tools, the role of the different sectors (government, private, and non-profit), measurements of success, current financial education resources, and public awareness campaigns. These meetings were a strong influence on the development and drafting of the *Strategy*.

**B. *Background on Implementation of the Strategy for Financial Education***

The members of the Commission have been working on the implementation of the *Strategy* since its release in April 2006. Please refer to Section VI for details.

**C. *Background on the Review of the Strategy for Financial Education***

In January 2007, the National Strategy Working Group was reconstituted to complete the annual review of the *Strategy* and prepare the 2007 edition of the *Strategy for Assuring Financial Empowerment* (SAFE) report. Currently, ten Commission members serve on the Working Group. They are as follows: Treasury, FDIC, FRB, FTC, OCC, OPM, OTS, USDA, HHS and DOL. The Working Group agreed to begin work on an insurance chapter. This work began in 2007 and continues into 2008. The main issues and challenges to cover in such a chapter have been discussed. A desire to identify successful programs from the private, non-profit, and

governmental sectors was also expressed. The group met again by telephone in March of 2008 and set May of 2008 as a target month to complete the new insurance education chapter.

## III. CONTENT, PUBLIC USE, AND IMPACT OF THE MY MONEY WEB SITE, HOTLINE, AND FINANCIAL LITERACY TOOLKIT

The Commission launched a national financial education Web site (MyMoney.gov) and toll-free hotline (1-888-MyMoney) in October of 2004, which streamlines access to Federal financial education resources. These resources provide the public with improved access to basic personal finance information from the Federal government in a centralized location.

### A. *Content and Public Use of the My Money Web Site*

MyMoney.gov affords consumers the opportunity to access Federal financial education information in both English and Spanish that can help them better manage their finances – whether that means securing a mortgage, planning for retirement, or saving for their children's education.

As of February 29, 2008, MyMoney.gov has received a running total of more than 2,000,000 hits on its English-language site, and more than 58,000 hits on its Spanish-language site. As a result, more than 1,425,000 English-language publications and almost 40,000 Spanish-language publications have been distributed to consumers through the GSA's Federal Citizen Information Center in Pueblo, Colorado. In addition to the hard-copy publications distributed by GSA, many Commission members distribute electronic versions of their financial education materials. Consumers have easy access to these materials through the MyMoney.gov Web site.

To maintain the Web site, the Commission created a Web site Subcommittee on January 20, 2004, comprised of several Commission members tasked with developing and maintaining the Web site. As of September 2006, the Web site Subcommittee is chaired by the NCUA, and its members are as follows: Treasury, FRB, FTC, GSA, SEC, SSA, USDA, HHS, and DOL.

GSA, which manages the Web site, updates MyMoney.gov periodically with new recommendations provided by the Subcommittee. Under GSA's supervision, the Web site continues to run smoothly.

In the past year through work on the Subcommittee, the My Money Web site has added a new feature. In the Web site's tools and resources section, a resource page with various financial calculators was added. There are calculators for mortgage computations, home buying, college planning, savings bonds, and tax withholding.

The last meeting of the Web site Subcommittee was held on October 31, 2007. The Subcommittee will continue to meet on a regular basis and explore ways to further improve the Web site's effectiveness and relevance.

**B.** ***Content and Public Use of the "My Money" Toll-free Hotline***

In October of 2004, the Commission also launched the 1-888-MyMoney (1-888-696-6639) toll-free hotline. Through the hotline, the Commission distributes financial education toolkits comprised of publications from several Commission member agencies. Operators are available to take toolkit orders for both English- and Spanish-language versions of the toolkit. Through January 31, 2008, the My Money toll-free hotline has received more than 20,200 calls to its English and Spanish language call center from callers requesting the toolkits.

Although the majority of requests for the toolkits are submitted through the Web site, the My Money hotline is meeting a critical need by providing financial information to those individuals who may not have access to the Internet and individuals who are not comfortable with accessing information through an Internet Web site.

GSA, which manages the My Money hotline service on behalf of the Commission, continues to report that the call center is operating smoothly and the operators are able to fill orders for My Money toolkits.

To create the My Money toll-free hotline, the Commission created a Hotline Subcommittee on January 20, 2004, comprised of several Commission members tasked with developing and maintaining the hotline. The Hotline Subcommittee is chaired by the FDIC and its additional members are as follows: Treasury, GSA, DOL, and NCUA.

The Commission's Hotline Subcommittee is currently working on ways to increase public awareness of the My Money toll-free hotline and the materials distributed through the My Money toolkit. Additionally, the Subcommittee is exploring the possibility of getting Commission members to contribute additional financial education materials to the toolkit.

The last meeting of the Hotline Subcommittee was held on October 24, 2007. As the Subcommittee continues to meet, it will evaluate new ideas for enhancing and publicizing the hotline.

**C.** ***Content and Public Use of the My Money Toolkit***

The Commission developed the My Money Toolkit, which consumers can order in English and Spanish by submitting an order form on MyMoney.gov or by calling 1-888-MyMoney. To date, 216,739 English and 7,254 Spanish toolkits have been distributed. Currently, the toolkit contains the following publications:

**English toolkit currently contains:**

- Savings Fitness: A Guide to Your Money and Your Financial Future (DOL)
- Insuring Your Deposits (FDIC)
- Money Smart Brochure (FDIC)

- Get the Facts on Saving and Investing (SEC)
- Ask Questions: Questions You Should Ask About Your Investments (SEC)
- Social Security: Understanding the Benefits (SSA)
- Consumer Information Catalog (GSA)
- Consumer Action Handbook (GSA)

**Spanish toolkit currently contains:**

- Savings Fitness: A Guide to Your Money and Your Financial Future (DOL)
- Insuring Your Deposits (FDIC)
- Money Smart Brochure (FDIC)
- Consumer Guide [Spanish language edition] (GSA)
- Get the Facts on Saving and Investing (SEC)
- Ask Questions: Questions You Should Ask About Your Investments (SEC)
- Social Security: Understanding the Benefits (SSA)

## IV. PUBLIC SERVICE ANNOUNCEMENT MULTIMEDIA CAMPAIGN

The Treasury Department entered into an agreement with the Ad Council to develop and execute a multimedia public service announcement campaign. As part of the *Strategy*, the campaign will focus on increasing credit literacy among young adult consumers. The campaign aims to raise awareness on the consequences of poor credit management. To refine the campaign's messaging, focus groups were held in Dallas, Texas and Baltimore, Maryland. Production began in February 2008. The launch of the campaign is estimated to take place during the third quarter of 2008. Elements of the public service announcement will also be available in Spanish.

## V. REGULAR MEETINGS AND OTHER COMMUNICATION VENUES OF THE FINANCIAL LITERACY AND EDUCATION COMMISSION

Since the establishment of the Commission, Treasury (working on behalf of the Commission) has coordinated 13 regular public meetings of the Commission, which take place no less frequently than every four months as mandated by Title V of the FACT Act. Based on comments received informally by Treasury from Commission members and other attendees, the regular Commission meetings have succeeded in raising awareness of financial education programs and in building a community around the financial literacy issue.

### A. *Financial Literacy and Education Commission Public Meetings*

Title V provides that the Commission "shall hold, at the call of the Chairperson, at least 1 meeting every 4 months" and that such meetings will be open to the public. To date, the Commission has held twelve public meetings in Washington, D.C. The following provides background for each of the Commission's public meetings since the submission of the 2007 SAFE Report in April of 2007.

**Eleventh Commission Meeting: Tuesday, May 15, 2007**

On May 15, 2007, David Nason, Treasury's then-Acting Assistant Secretary for Financial Institutions, opened and chaired the meeting in the Cash Room at the Treasury Department. Treasury Secretary Henry M. Paulson, Jr., Chair of the Financial Literacy and Education Commission, provided welcoming remarks and discussed the roles of financial education and cooperation among borrowers, lenders, and counselors in solving problems related to sub-prime loans. He then noted President's Bush's expressed interest in financial literacy, and concluded by recognizing the work of the Commission.

Chairs John McKechnie (NCUA; Web site Subcommittee), Robert Mooney (FDIC; My Money Hotline Subcommittee) and Dan Iannicola, Jr. (Treasury; National Strategy Working Group) gave brief descriptions of the current work of their respective subcommittees.

Four guest speakers presented remarks to the Commission on four financial education best practices: Eddy Bayardelle, Managing Director and President of the Merrill Lynch Foundation; Larry Forrester, President and Chief Executive Officer of the Insurance Education Institute; Raymond Kirk, Manager of the Benefits Officers Training and Development Group for the U.S. Office of Personnel Management; and Christine Kieffer, Senior Program Director of the NASD Investor Education Foundation. Subjects included:

- Mr. Bayardelle spoke about how a global foundation includes financial education as part of its overall strategy.
- Mr. Forrester discussed the Institute's work training teachers on insurance issues.
- Mr. Kirk provided a comprehensive overview of the retirement education efforts for Federal employees.
- Ms. Kieffer discussed the Foundation's work in helping to facilitate the launch of a community-based library grant program; provide education and tools to military personnel and their families; and prepare young adults for a lifetime of financial stability.

Paul S. Atkins, Commissioner of the Securities and Exchange Commission, provided closing remarks.

**Twelfth Commission Meeting: Tuesday, September 25, 2007**

On September 25, 2007, David Nason, Treasury's Assistant Secretary for Financial Institutions, opened and chaired the meeting in the Cash Room at the Treasury Department. The meeting included featured speaker FDIC Chairman Sheila Bair.

Chairs JoAnn Johnson (NCUA; Web site Subcommittee), Kathy Nagle (FDIC; My Money Hotline Subcommittee) and Dan Iannicola, Jr. (Treasury; National Strategy Working Group) gave brief descriptions of the current work of their respective subcommittees. Mr. Iannicola noted that on August 31, President George W. Bush announced his intention to create a Presidential Advisory Council on Financial Literacy.

Four guest speakers presented remarks to the Commission on four financial education best practices: Eileen Fitzgerald, Chief Operating Officer of NeighborWorks; Lisa Piercefield, Reverse Mortgage Specialist with Momentive Consumer Credit Counseling Service; Frank Davis, General Deputy Assistant Secretary for Housing and Ruth Roman, Director, Office of Program Support at the U.S. Department of Housing and Urban Development; and Mosi Harrington, Executive Director of the Housing Partnership Initiative. At the meeting:

- Ms. Fitzgerald shared how NeighborWorks' nationwide network of home counselors work together to help homeowners.
- Ms. Piercefield provided examples of Momentive's approach to counseling that enabled consumers to keep their homes
- Mr. Davis and Ms. Roman provided a comprehensive overview of HUD's Housing Counseling Program.
- Ms. Harrington discussed Housing Partnership Initiative's housing and neighborhood improvement programs, related services, and scholarships.

Mr. Nason provided closing remarks.

**Thirteenth Commission Meeting: Tuesday, January 15, 2008**

On January 15, 2008, Dan Iannicola, Jr., Treasury's Deputy Assistant Secretary for Financial Education, opened and chaired the meeting in the Cash Room at the Treasury Department. The meeting featured opening remarks from Nebraska Congressman Adrian Smith.

Chairs John McKechnie (NCUA; Web site Subcommittee) and Kathy Nagle (FDIC; My Money Hotline Subcommittee) gave brief descriptions of the current work of their respective subcommittees.

Dan Iannicola, Jr. (Treasury; National Strategy Working Group) provided an update on progress in addressing several of the Calls to Action listed in the *Strategy*. He discussed the multi-media campaign's upcoming public service announcements that respond to Call to Action (CTA) 4.1. He discussed the October 2007 Eastern Regional Conference on banking the unbanked in response to CTA 8.1. He discussed Treasury's participation in the October 2007 West Coast Summit of the National Financial Education Network in response to CTA 12.5 and discussed plans for a roundtable to discuss retirement saving in response to CTAs 3.1 and 7.2.

Five individuals from four groups presented the Commission with their organizations' work in the field of financial education: Mrs. Holly Petraeus, Director of the BBB Military Line for the Better Business Bureau; Mrs. Julia Garcia, Director of Stakeholder Partnerships, Education and Communication for the Internal Revenue Service; Mr. Peter Skillern, Executive Director, and Ms. Dilsey Davis, Director of Media Advocacy, both of

the Community Reinvestment Association of North Carolina; and Mr. Al Duarte, Vice President of Education for the InCharge Education Foundation. At the meeting:

- Mrs. Petraeus discussed how the BBB is helping our nation's military through its programs.
- Mrs. Garcia provided a comprehensive overview of the IRS's initiatives in the field of financial literacy.
- Mr. Skillern and Ms. Davis presented a four-minute trailer from a 13-part, Spanish-language soap opera called a telenovella that uses entertainment and education to convey a financial literacy message.
- Mr. Duarte spoke about InCharge Education Foundation's BrightScore credit report and accompanying credit score education program.

**B.** ***FLEC Informal Briefings***

To enhance coordination and encourage increased collaboration among Commission members, the Commission holds regular informal briefings at Treasury. These briefings are a recurring event for Commission members only, and are timed to occur roughly two months before each regular public Commission meeting. The Commission held its first informal briefing on December 12, 2006, and has held four more since then, which are summarized below.

1. **Second Informal Briefing of the Commission: Wednesday, March 21, 2007**

On March 21, 2007, Dan Iannicola, Jr., Treasury's Deputy Assistant Secretary for Financial Education, made welcoming remarks and opened the briefing. The My Money hotline and Web site Subcommittee updates were discussed.

Mr. Iannicola provided brief update on the kindergarten to post-secondary financial education summit, multicultural roundtable, and status of the 2007 SAFE report. Ms. Lori Schock, SEC, and Ms. Brenda McDaniels, DoD, discussed the status of their financial literacy programs.

2. **Third Informal Briefing of the Commission: Wednesday, July 18, 2007**

On July 18, 2007, Dan Iannicola, Jr., Treasury's Deputy Assistant Secretary for Financial Education, made welcoming remarks and opened the briefing. The My Money hotline and Web site Subcommittee updates were discussed initially.

Mr. Iannicola discussed progress since the last Commission meeting on implementing six Calls to Action from the *Strategy*. He next talked about the status of adding a chapter on insurance to the *Strategy*. He then discussed the April 30, 2007 Senate Hearing on Financial Literacy, at which several FLEC members testified. His final topic was the April 25, 2007 White House meeting on Financial Literacy, in which President Bush charged the Secretary of the Treasury with building on the Commission's efforts.

Mr. James Zawada from GSA and Ms. Irene Meader from OPM, discussed the status of their financial literacy programs.

3. **Fourth Informal Briefing of the Commission: Thursday, November 29, 2007**

On November 29, 2007, Dan Iannicola, Jr., Treasury's Deputy Assistant Secretary for Financial Education, made welcoming remarks and opened the briefing. The My Money hotline and Web site Subcommittee updates were then discussed.

Progress on implementing two Calls to Action from the *Strategy* was discussed. Mr. Raymond Kirk, OPM, presented a summary of the National Financial Education Network Summit. He was followed by Ms. Karen Bellesi, Office of the Comptroller of the Currency (OCC), who presented a summary of meeting on efforts to assist the unbanked.

Cmd. David Julian discussed the status of financial literacy programs at DoD.

Mr. Iannicola discussed the White House Financial Literacy Initiative and made a Request to all Commission members for budget data for the SAFE Report.

4. **Fifth Informal Briefing of the Commission: Tuesday, March 25, 2008**

On March 25, 2008, Dan Iannicola, Jr., Treasury's Deputy Assistant Secretary for Financial Education, made welcoming remarks and opened the briefing. Updates from the My Money Web site and hotline subcommittees were then given.

Progress on implementing five Calls to Action (CTA) from the *Strategy* was discussed. Recent efforts concerning the multi-media campaign (CTA 4.1), outreach to multilingual/multicultural populations (CTA 9.1), post-secondary financial education summit and findings (CTA 10.1), the upcoming (Fall 2008) symposium of financial education researchers (CTA 11.1), and the upcoming (May 7-8, 2008) international summit (CTA 13.1), were highlighted.

Mr. Iannicola discussed the role of the President's Advisory Council on Financial Literacy (Council) and requested that the Commission members consider allowing a liaison from the Council to participate in meetings with the Commission.

Nine member agencies then discussed their recent financial literacy initiatives.

C. ***Commission Progress Report***

On a periodic basis, Treasury prepares a Progress Report for the Commission that tracks the work of the Commission on the implementation of the *Strategy*, as well as any other activities that the Commission members undertake individually. Commission members are encouraged to submit items for publication.

## VI. CURRENT AND FUTURE FINANCIAL LITERACY AND EDUCATION COMMISSION ACTIVITIES

The Commission will continue its work to coordinate activities to help improve the financial literacy of all Americans. Per Title V, the Commission will continue to hold a public meeting every four months. This year's remaining public Commission meetings will take place in May and September of 2008. Additionally, various Commission members will participate in the activities outlined in the *Strategy* for financial education ("Calls to Action"). Below is a summary and update of current and future Calls to Action, which are listed by number as they appear in the *Strategy*. The report below is for those Calls to Action, published in the 2006 *Strategy,* that require action by Commission members. Updates of the new Calls to Actions are in Appendix A. Please note that all dates are calendar year.

*Chapter 1: General Saving*

**1-1** In the first quarter of 2006, the Treasury Department will partner with a non-profit organization to develop and implement a public service announcement on the benefits of lifetime savings and the savings resources available on the Financial Literacy and Education Commission's Web site, MyMoney.gov.

Update: In the spring of 2006, Treasury partnered with the American Savings Education Council (ASEC) to produce a public service announcement on the benefits of saving and resources available to the public at MyMoney.gov and 1-888-My Money. This ad was released in April of 2007 to mark Financial Literacy Month and can be viewed on MyMoney.gov.

Status: Completed.

*Chapter 2: Homeownership*

**2-1** Between the second quarter of 2006 and the second quarter of 2007, the U.S. Department of Housing and Urban Development will join with the Treasury Department to host a series of meetings highlighting the work of successful partnerships that have advanced homeownership.

Update: In July of 2006, HUD and Treasury co-hosted the first meeting in Washington, D.C. During the meeting, the complexity of identifying partners to advance homeownership was discussed at length.

The meeting touched on foreclosure prevention, non-traditional mortgage products, and "hidden" costs—such as maintenance, repairs, supplemental insurance, and home improvements. Best practice speakers at the meeting included representatives from both NeighborWorks America and the Mortgage Bankers Association.

In July of 2007 in Boston, Massachusetts, HUD, in partnership with the Treasury Department, hosted the second meeting highlighting successful partnerships that have advanced homeownership. The discussion was focused on how public-private sector partnerships can better deliver grassroots counseling and training programs. The Federal Deposit Insurance Corporation and the Federal Reserve Bank of Boston also contributed to the dialogue.

Status: Completed.

*Chapter 3: Retirement Saving*

**3-1** In 2006, the Treasury Department and the Department of Labor will co-host a roundtable with large employers on retirement saving. Topics will include successful strategies in integrating the delivery of financial education into the workplace and other options for increasing participation and contributions in private pensions, such as automatic enrollment.

Update: An agenda is being developed. The date of the meeting will be determined after the agenda is finalized. The roundtable is scheduled for the summer of 2008 in Washington, D.C.

Status: In progress.

**3-2** The Small Business Administration (SBA), the Department of Labor, and the Treasury Department are committed to conducting outreach to small businesses, and will continue to offer valuable resources on retirement options to small firms. The SBA will make available specific information for small businesses on general retirement issues by providing an online training link that will be available on www.MyMoney.gov by the second quarter of 2006.

Update: In April 2006, SBA made available specific information for small businesses on general retirement issues by providing an online training link on the MyMoney.gov Web site. From July through December of 2006, the link received 4,601 hits.

In addition, DOL, in partnership with the Internal Revenue Service (IRS), developed and published a new publication, *Payroll Deduction IRAs*, to complement the series of publications describing retirement plan options for small employers. DOL, as part of its ongoing Fiduciary Education Campaign, "Getting It Right - Know Your Fiduciary Responsibilities" conducted 27 Fiduciary Compliance Assistance Seminars to date, in coordination with the IRS, American Institute of Certified Public Accountants, and Society of Human Resources Management. Over 2,700 small employers and their service providers have attended these seminars. Surveys completed by the seminar attendees consistently include high praise for the program. In 2007, DOL launched an interactive Web

site version of its fiduciary education. DOL is working with the IRS to update the publications in the Choosing A Retirement Solution Campaign and Fiduciary Education Campaign for the Pension Protection Act. The Fiduciary interactive Web site will also be updated for the Pension Protection Act as new guidance is issued.

Status: Completed.

*Chapter 4: Credit*

**4-1** The Department of the Treasury will launch a multi-media campaign in the third quarter of 2006 to seek to improve credit literacy among consumers. The campaign also will invite Americans to get information about managing consumer credit at MyMoney.gov. By accessing the Web site, Americans can learn more about credit history, credit reporting, and credit scoring.

Update: The Treasury Department entered into an agreement with the Ad Council to develop and execute a multimedia public service announcement campaign. As part of the *Strategy*, the campaign will focus on increasing credit literacy among young adult consumers. The campaign aims to raise awareness on the consequences of poor credit management. To refine the campaign message, focus groups were held in Dallas, Texas and Baltimore, Maryland. Production began in February 2008. Elements of the public service announcement will also be available in Spanish.

Status: In progress.

*Chapter 5: Consumer Protection*

**5-2** In the first quarter of 2006, the Treasury Department will make the DVD, entitled "Identity Theft: Outsmarting the Crooks," available to the public through the MyMoney.gov Web site and the 1-888-My Money toll-free hotline.

Update: In April 2006, Treasury released the DVD "Identity Theft: Outsmarting the Crooks," and made it available to the public through MyMoney.gov and 1-888-My Money. All copies of the DVD, which totaled 60,750, were distributed. A transcript of the DVD can be found online at http://treas.gov/offices/domestic-finance/financial-institution/cip/pdf/library_transcript.pdf.

Status: Completed.

*Chapter 6: Taxpayer Rights*

**6-2** In 2006, the Department of the Treasury and a Federal Reserve Bank will continue the national public education campaign, "Go Direct." The campaign is designed to encourage Americans who receive federal benefit payments, particularly Social Security, to use

direct deposit. On an annual basis, the program will be assessed by the agencies to determine its effectiveness and viability.

Update: Treasury and Federal Reserve Banks are continuing the national public education campaign, "Go Direct." From the start of the pilot program in September, 2004 through February 8, 2008 there were more than 1,670,000 conversions of paper check recipients to direct deposit enrollees. The U.S. Senate declared February, 2008 as "Go Direct Month" to motivate more Americans to select direct deposit for their Social Security and other federal benefit payments.

Status: Ongoing.

**6-3** The Department of Health and Human Services will continue its public awareness campaign on the new Medicare drug benefit that encourages seniors to enroll in the program. The public awareness campaign began on November 15, 2005 and continues until May 16, 2006. The campaign provides eligible taxpayers with easy access to information regarding enrollment.

Update: As a result of this awareness campaign, over 90 percent of those with Medicare have some form of drug coverage, as opposed to less than 50 percent before the passage of the Medicare Modernization Act. Of those, almost 24 million have prescription drug coverage through the new Medicare Part D benefit.

Over the course of the awareness campaign, HHS worked with over 40,000 partners and conducted 12,000 events to educate taxpayers and beneficiaries on enrolling in the Part D program. Since May of 2006, more than 1.4 million beneficiaries have enrolled in Medicare's Part D program, bringing the total number of Medicare beneficiaries now receiving prescription drug coverage to over 39 million.

Status: Completed.

*Chapter 7: Investor Protection*

**7-2** During the meeting to be hosted by the Treasury Department and the Department of Labor (see 3-1), the topics of discussion will include an educational emphasis on investment fees. Attendees will discuss how to present information on fees in a clear and understandable manner. Two CTAs (3-1 and 7-2) will be accomplished through one event with a broad focus.

Update: Please refer to Call to Action 3.1 above for details.

Status: In progress.

*Chapter 8: The Unbanked*

**8-1** Between the second quarter of 2006 and the third quarter of 2007, the Department of the Treasury, along with the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, will host a series of four regional conferences to share best practices on banking of the unbanked. The conferences will bring together community-based organizations, financial service providers, and Federal, state, and local regulators to broker partnerships and discuss the latest developments and strategies in bringing people into the financial mainstream.

Update: In May 2006 at the Federal Reserve Bank of Chicago, the FDIC, NCUA, OCC and Treasury held their first of four regional conferences to address the problems faced by those outside the financial mainstream at the "Midwest Regional Conference on Reaching Unbanked People." Topics discussed included building partnerships and identifying solutions, serving immigrant communities, selling the business benefits of serving the unbanked within institutions, reaching young customers, developing new products, and providing financial education to help new and potential customers.

In December 2006 in Edinburg, Texas, FDIC, NCUA, OCC and Treasury, with the assistance of the Federal Reserve Bank of Dallas, OTS and HUD, held the "Southwest Regional Conference on Reaching Unbanked People." The conference was hosted by the University of Texas – Pan-American in coordination with the Office of Congressman Ruben Hinojosa. This was the second of four regional conferences. The conference included discussion on unbanked people in border and immigrant communities, the role of financial institutions in financial literacy, the impact of being unbanked for individuals and communities, and a survey of Latino Earned Income Tax Credit filers in border communities.

In March of 2007 in Seattle, Washington, FDIC, NCUA, OCC, OTS, Treasury, and the Federal Reserve Bank of San Francisco, Seattle Branch, with the assistance of HUD and the Washington State Department of Financial Institutions, held the "Northwest Regional Conference on Reaching Unbanked People." The conference convened government officials, financial institutions, community organizations, and others working to reach underserved communities in the Northwest. It also provided a forum to share observations and innovative ideas with the convening agencies and other practitioners.

In October of 2007, in New York City, Treasury, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the Federal Reserve Banks of New York, Philadelphia and Richmond – with the help of the New York City Department of Consumer Affairs Office of Financial Empowerment held the "Eastern Regional Conference on Reaching Unbanked People". The conference convened government officials, financial institutions, community organizations, and others working to reach underserved individuals

from the Eastern region promoting discussion on topics including reaching youth, reaching immigrant markets, creating community financial institutions, asset building, and what can be learned from alternative lenders. Summaries of the conferences are now available on the Treasury Department's Web site. The four regional conferences on the unbanked are now completed.

Status: Completed.

*Chapter 9: Multilingual / Multicultural Populations*

**9-1** Between the fourth quarter of 2006 and the fourth quarter of 2007, the Treasury Department will host a series of roundtables on financial education topics of special concern to specific communities. The goal of each roundtable will be to raise awareness of the important financial education topics within the specific community highlighted.

Update: The first conference took place in March of 2007 at Treasury and was focused on American Indian or Alaska Native populations. The conference touched on the needs and wants of American Indian or Alaska Native populations and how financial education could help. Other topics included public and private partnerships, access to financial institutions and services, and public awareness events on reservations.

In July of 2007, the second conference on multicultural and multilingual communities took place at Treasury. The focus was Asian and Native Hawaiian or other Pacific Islander communities. The main topics covered were financial education programs and partnerships that have successfully promoted financial education in the Asian and Native Hawaiian or other Pacific Islander communities. Representatives from the business world, from nonprofits and from government participated in the discussion.

The third conference took place on March 4, 2008, and focused on Black or African-American communities. The main topics covered were Black or African-American markets, credit literacy, youth and higher education, and preparing for retirement.

Plans are also underway for the fourth and final conference in June 2008 which will focus on Hispanic or Latino communities.

Status: In progress.

*Chapter 10: Kindergarten – Postsecondary Financial Education*

**10-1** In 2006, the Department of the Treasury will partner with the Department of Education to host a summit focused on integration of financial education into the core school curriculum. The group also will survey promising practices in financial education and in teacher training in an effort to assist others who are starting or enhancing programs. This

public meeting will bring together policymakers, educators, and other leaders in the fields of general education and financial literacy. Findings from this summit will be made available to educators and policymakers throughout the nation.

Update: In February 2007, the Department of Education and Treasury co-hosted a two-day financial education summit. The group surveyed promising practices in financial education at school, non-school venues and college-level programs in an effort to assist others who are starting or enhancing programs. Also discussed were financial education guidelines and standards currently in place in some states around the country, and the role of volunteers in schools. As part of this summit, a request for comments was published in the *Federal Register* on the topic of raising the financial literacy levels of kindergarten through postsecondary students. The findings from this summit and the request for comment are currently being reviewed. The findings are expected to be made available in the second quarter of 2008.

Status: In progress.

*Chapter 11: Academic Research and Program Evaluation*

**11-1** The Treasury Department, along with the Department of Agriculture's Cooperative State Research, Education and Extension Service, will convene a symposium of researchers who specialize in financial education between the third quarter of 2006 and the third quarter of 2007. The goal of the symposium is to raise awareness of existing academic research and to define questions that require additional analysis. The symposium will result in a white paper that will survey current financial education research and will also identify areas of potential future research.

Update: The symposium is scheduled for the fourth quarter of 2008.

Status: In progress.

*Chapter 12: Coordination Efforts*

**12-1** The Financial Literacy and Education Commission will continue to enhance the Web site, MyMoney.gov, to make it more comprehensive and interactive. The Commission will also work with other organizations to promote the awareness and use of the Web site.

Update: The Commission continues to enhance MyMoney.gov, making it more comprehensive and interactive. In 2006, the "Money 20" interactive quiz was added to the Web site, where visitors can test their knowledge in a twenty question online quiz pertaining to a variety of personal finance issues. The Commission has continued to update the Web site to make available the most current information on Federal resources as well as Federal financial education grant programs. In the past year through work on the Subcommittee, the My Money Web site has added a new feature. In the Web site's tools and resources

section, a calculators resource page was added. There are calculators for mortgage computations, home buying, college planning, savings bonds, and tax withholding. In 2008, a new link was added that takes users to the Money Math Lessons for Life program. Currently, all Commission members have links to MyMoney.gov from their agencies' Web sites. In addition, the Social Security Administration sends out a benefit statement each year to about 150 million current and former workers aged 25 and older. The first page of statement has been updated recently to include the www.mymoney.gov link, in order to increase nationwide awareness of the Web site. A sample of the statement can be viewed at http://www.ssa.gov/mystatement/currentstatement.pdf.

Status: Ongoing.

**12-2** Every six months the GSA and the Treasury Department will partner to survey Federal financial literacy and education programs and resources to identify potential overlap and duplication. The results of this survey will be put in report form and will be submitted to Commission members, with the first report to be issued in September 2006.

Update: In August 2006, GSA and Treasury completed the first survey. Findings have shown very little overlap or duplication among Federal financial education resources. While some programs and materials do cover similar topics, they are quite often targeted toward different audiences. Hence, the elimination of a specific resource or program could negatively affect a certain group of people. Subsequent surveys have produced similar results.

Status: Ongoing.

*Chapter 13: International Perspective*

**13-1** Between the third quarter of 2006 and the second quarter of 2007, the Treasury Department will host an international summit on financial education. To bring about this multinational dialogue the Treasury Department will invite the central government authorities responsible for financial literacy in their respective nations to convene and discuss recent developments, innovative methods, and successful strategies for improving financial literacy in their home countries.

Update: Treasury is partnering with the Organization for Economic Cooperation and Development to co-host an international summit on financial literacy in May 2008. The summit will take place in Washington, D.C.

Status: In progress.

SCHWAB

# News Release

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## SCHWAB "PARENTS & MONEY" SURVEY OFFERS PRESCRIPTION FOR RAISING FINANCIALLY HEALTHY KIDS

Findings Also Encourage Parents to Assess Their Own Financial Health

**SAN FRANCISCO, March 26, 2008** — Asked to select topics they wish they had learned more about when they were teenagers, the greatest percentage of today's parents with teens (57 percent) choose "money management." Surprisingly, most parents admit to raising children who may someday share the same regret. These are among the key findings of "Parents & Money," the latest annual survey on the topic of families and money released today by Charles Schwab.

Sixty percent of parents identify their teens as "quick spenders," and most acknowledge they could do a better job of teaching and preparing their kids for the financial challenges of adulthood, including budgeting, saving and investing. Only about one in three (34 percent) has taught their teen how to balance a checkbook, and even fewer (29 percent) have explained how credit card interest and fees work.

And while most agree that the best way for teens to learn about money is from guided, hands-on experience or their own example (71 percent), only one in five parents (20 percent) involves their teen to a great extent in the family's budgeting and spending decisions. A full 25 percent don't involve their teens in these important activities at all. In fact, parents are much more apt to teach their kids how to do laundry (70 percent) than how to pay bills (43 percent).

"Parents prepare their kids for so many of life's milestones – hitting puberty, getting a driver's license, choosing a college," said Carrie Schwab-Pomerantz, Schwab's chief strategist of consumer education and president of Charles Schwab Foundation. "But this year's survey shows that they may be missing opportunities to prepare their teens for important *financial* milestones like managing an allowance, getting their first job, getting a credit card or buying a car."

### Parents are worried, but not acting on their fears

Nearly all (93 percent) American parents with teens age 13-18 worry their teens might make financial missteps such as: overspending or living beyond their means (67 percent), getting in over their head with credit card debt (65 percent), failing to save for emergencies (60 percent) or failing to stick to a budget (57 percent). And a full third of parents (33 percent) anticipate their "golden years" will likely involve helping their kids financially.

Their fears may be well-founded. While the majority of parents consider learning about budgeting (63 percent) and credit card management (55 percent) to be more important for today's teens (than when they themselves were young), far fewer claim to have taught their children these basics (49 percent and 29 percent, respectively).

(more)

One barrier may be the misconception that teens aren't interested in learning about personal finance. More than two-thirds of parents (67 percent) think that learning about money management, including budgeting, saving and investing, is not one of their teen's top priorities. However, previous research shows otherwise: 60 percent of American teens identified it as a top priority in Schwab's 2007 Teens & Money Survey.

### Parents may need coaching, too

Although three-quarters of parents (75 percent) consider themselves good financial role models for their teens, the data suggest otherwise. The majority of parents surveyed characterize themselves as "quick spenders" vs. "stellar savers" (52 percent vs. 48 percent). More than one in four parents surveyed (28 percent) are not currently saving for either their own retirement or for their child's college education.

Even more troubling is the fact that half (50 percent) of all parents think their teens will need to have less than $500,000 saved to retire by age 65, including 38 percent who believe their teens will need to have less than $200,000 saved. To put this in perspective, according to the Schwab Center for Financial Research, someone about to retire should have roughly 25 times his or her last year's working income saved in order to sustain an adequate level of income throughout retirement. In other words, in order to generate annual retirement income of $44,000[1] that keeps pace with inflation and lasts for an expected 30-year retirement, a moderate investor would need to have approximately $1.1 million socked away.[2]

And while investing is also cited by almost half (49 percent) of parents as more important for today's youth to learn about than it was a generation ago, few are teaching their kids about it. Nearly all parents (97 percent) believe it's important to teach their teens to save and invest for retirement and almost half (48 percent) worry that their kids won't start saving soon enough, yet only 19 percent have taught their teens how to invest money to make it grow and even fewer (14 percent) have taught them what a 401(k) plan is. This isn't surprising given that more than two-thirds of parents (69 percent) admit to feeling less prepared to give their teens advice and guidance about investing than they do the "birds and the bees."

"The research points to some key opportunities for parents – even for those who may feel insecure or ambivalent about giving financial advice themselves," said Kristine Dixon, director of consumer education at Schwab. "Our website, www.schwabmoneywise.com, is a great resource to guide family discussions about money and encourage good financial habits," she added. "And the process of teaching someone else almost always offers the added benefit of helping us learn more ourselves."

### Tips for raising financially fit teens

Parents don't have to be financial whizzes themselves – or even perfect financial role models – to raise financially fit teens. Here are some practical ways for any parent to get started:

1. **Include your teen in discussions about the household finances.** Make discussion about the household finances a regular part of everyday life. The majority of today's parents wish they'd known more about money management when *they* were teens. Break the cycle of ignorance by taking a page out of the single parent's handbook. Single parents are 44 percent more likely than married parents to regularly involve their kids in household financial decisions. Current events in the economy provide additional opportunities for family discussion.

2. **Be prepared for your teen's financial rites-of-passage.** Whether it's a first job, saving for a car, using a credit card, or saving for college, real-life events provide opportunities to bring basic financial concepts to life. All teens experience money milestones that offer an invitation for parents to share their own values and talk about money management in a way that's compelling to kids. The website, www.schwabmoneywise.com, can help you identify your teen's next financial milestone and capitalize on that opportunity.

3. **Provide your teen with an allowance and stick to it.** An allowance gives kids the ability to learn how to make choices – sometimes at the expense of making mistakes. Don't give teens more money just because they ask for it. Teens whose parents describe them as "stellar savers" actually get on

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[1] The median U.S. income, according to the U.S. Census Bureau, 2004.
[2] This translates into a withdrawal rate of roughly 4 percent of the portfolio's value in the first year of retirement, which is then grown for inflation over the rest of the retirement time horizon.

average $30 *less* per month than teens who are "quick spenders." If you increase your teen's allowance, demand greater accountability by requiring him or her to pay for some basic necessities.

4. **Encourage your teen to get a part-time or summer job.** Teens who have paying jobs are 40 percent more likely than kids who don't to be "stellar savers" rather than "quick spenders." Even working just a few hours a week or during summer breaks can give kids the important practical experience of managing their own money. Only one-third of parents (33 percent) say their teens have a paying job.

5. **Teach your teen how to use financial tools like checkbooks and credit cards**. Almost a third of parents (30 percent) say their teens don't have any type of savings, checking or other financial account. While your kids are still under your roof, you can teach them how to use a credit card wisely, and the importance of balancing a checkbook and checking a bank statement. These are exercises that will help them learn how to live within their means.

6. **Help them make saving an automatic part of their lives**. Teach them that regular saving should be as automatic as brushing their teeth. Consider providing an incentive by "matching" the money they put into savings themselves with some amount – perhaps 25 cents on the dollar. Sixty-one percent of parents feel they could do a better job teaching their teens about saving.

7. **Show them the money**. If you participate in a retirement plan, like a 401(k) or IRA, talk about what a great vehicle it can be to make money grow. If you feel comfortable doing so, you can even consider showing them your own account statements to help them understand the power of compound growth over time.

## About the Parents & Money Survey

The *Parents & Money* survey was conducted by Kelton Research, a research consulting firm, on behalf of Schwab. The nationally-representative online survey polled 1,000 American parents with teens between the ages of 13-18 to better understand their views, behavior and knowledge of spending, saving, borrowing, and earning money. The survey findings have a margin of error of plus or minus 3 percentage points at the 95 percent confidence level.

## About Charles Schwab

The Charles Schwab Corporation (Nasdaq: SCHW) is a leading provider of financial services, with more than 300 offices and 7.1 million client brokerage accounts, 1.3 million corporate retirement plan participants, 302,000 banking accounts, and $1.4 trillion in client assets. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC, http://www.sipc.org), and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through its Schwab Institutional division. The Charles Schwab Bank (member FDIC) provides banking and mortgage services and products. More information is available at www.schwab.com.

Charles Schwab Foundation is a private, nonprofit organization funded by the Charles Schwab Corporation. Its mission is to give back to the community by supporting employee-selected causes and fostering financial literacy through funding, involvement and expertise. More information is available at www.aboutschwab.com/community. (0308-5254)

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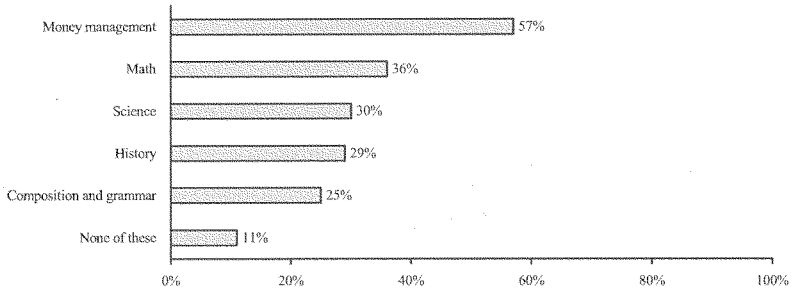
## Charles Schwab 2008 Parents & Money Survey Findings

*Insights into Money Attitudes, Behaviors and Concerns of Parents with Teens*

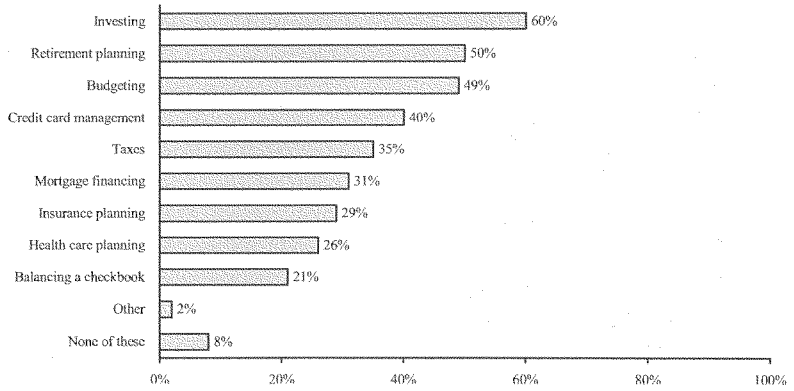
### PARENTS' REFLECTIONS ON THEIR OWN TEENAGE YEARS

- **Today's parents wish they had learned more about money management in their youth:**
  - Asked to identify the topics they wish they had learned more about when they were teenagers, the greatest percentage (57%) choose "money management."

**Topics parents wish they had learned more about when they were teenagers**




**Financial topics parents wish they had learned more about as teenagers**




  - Moms are more likely than dads to wish they'd learned about money management at an early age particularly lessons in budgeting (53% vs. 45%) and credit card management (47% vs. 34%).

- **The majority of parents today believe that their own parents were good financial role models:**
  - Sixty-nine percent say their own parents were good financial role models for them when they were a teen (46% describe their parents as "fairly good" and 23% as "extremely good).
  - Almost a third (31%) report otherwise. Twenty-two percent characterize their parents as "not very good" and 8% say they were "poor" role models.

- **The majority of today's parents say they were financially independent by age 21:**
  - Seventy-seven percent say that by age 21 their parents had stopped supporting them financially in any way.
  - Fifty percent state that between ages 16-18 they had become financially independent.
  - Only about one in five (21%) of today's parents was age 22 or older before becoming financially independent.

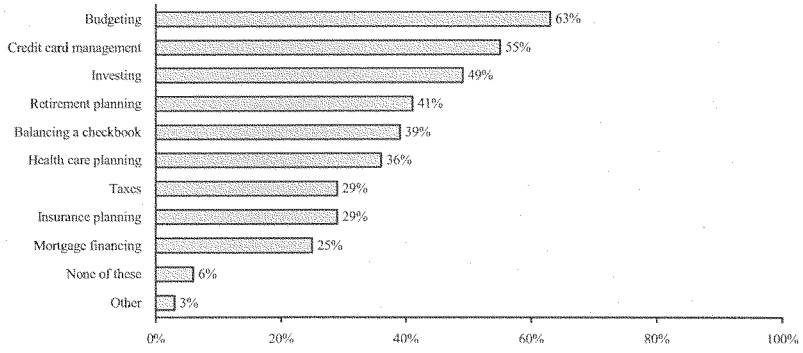
## PARENTS' PERCEPTIONS OF THEIR TEENS' MONEY KNOWLEDGE AND BEHAVIOR

- **Parents don't realize their teen is interested in learning about personal finance:**
  - Two-thirds (67%) of parents believe that learning about money management (including budgeting, saving and investing) is **not** one of their teen's top priorities.
  - The Schwab 2007 Teens & Money Survey showed otherwise: Almost two thirds (60%) of teens stated that learning about money management **was** one of their top priorities.

- **The majority of parents think their teen is knowledgeable about money management:**
  - Two-thirds (67%) of parents think their teen is knowledgeable about money management (57% say "somewhat knowledgeable," and 10% say "extremely knowledgeable").
  - However, one-third (33%) of parents believe their teen is not knowledgeable about money management.

- **But parents view teens as spenders, not savers:**
  - More parents describe their teen as a "Quick Spender" (60%) as opposed to a "Stellar Saver" (40%).

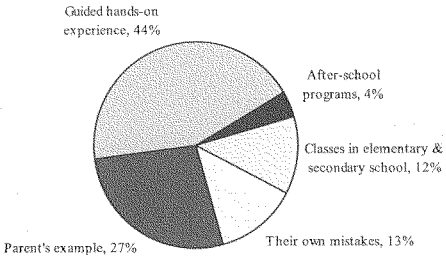
**Money management topics parents cite as being more important for today's teens (as compared to when they were teens)**



## PARENTS AS MONEY COACHES AND ROLE MODELS

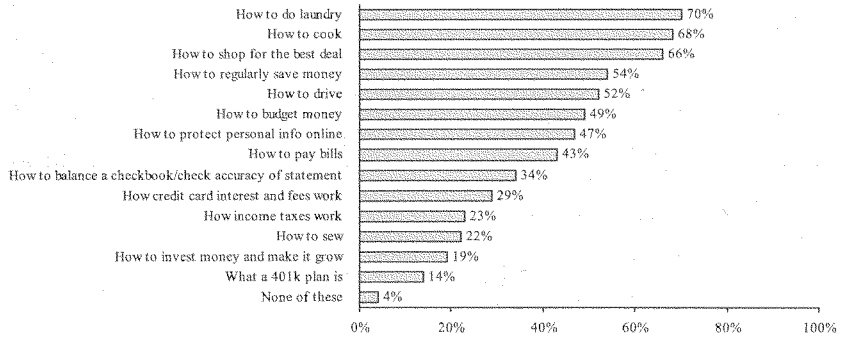
- **There's an opportunity to involve teens more in the family finances:**
  - Only one in five parents (20%) involve their teen in family budgeting and spending decisions "to a great extent, so they can learn by doing."
  - More than half (55%) involve their teen only "occasionally, when it makes sense," and a quarter (25%) of parents don't involve their teen at all. Of those who don't involve their teen at all, 14% say "it's not appropriate" or "it never occurred to me" (11%).

**The best way for teens to learn about money management (according to parents)**


Guided hands-on experience, 44%
After-school programs, 4%
Classes in elementary & secondary school, 12%
Their own mistakes, 13%
Parent's example, 27%

- **Teens may be missing out on hands-on learning opportunities:**
  - Only one-third (33%) of parents say their teen has a paying job.
  - Teens with jobs are more likely to be savers than teens who don't work (49% vs. 35%).
  - While the majority (61%) of teens have savings accounts, only 24% have checking accounts.
  - Nearly one in three (30%) teens have no financial account whatsoever.

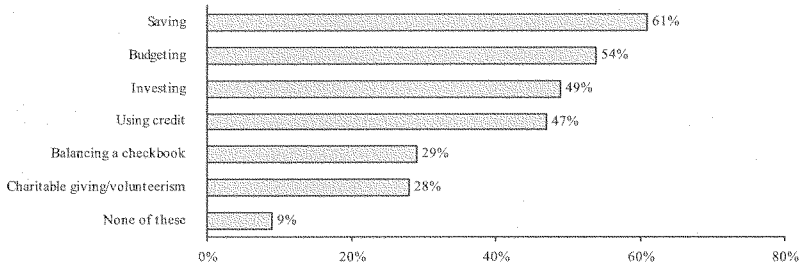
**What parents have personally taught their teens**


How to do laundry 70%
How to cook 68%
How to shop for the best deal 66%
How to regularly save money 54%
How to drive 52%
How to budget money 49%
How to protect personal info online 47%
How to pay bills 43%
How to balance a checkbook/check accuracy of statement 34%
How credit card interest and fees work 29%
How income taxes work 23%
How to sew 22%
How to invest money and make it grow 19%
What a 401k plan is 14%
None of these 4%
0%
20%
40%
60%
80%
100%

- **Most parents think they are financially savvy – but are they?**
  - Three-quarters (75%) of parents think they are financially savvy when it comes to budgeting, saving, managing credit and investing. Sixteen percent of these say they are "extremely savvy" and 59% say "somewhat savvy" (59%).
  - One in five (20%) admit they are "not very savvy," and a handful (5%) say they are "not at all savvy."
  - More than two-thirds (69%) of parents feel less prepared to give their teen advice and guidance about investing than they do the "birds and bees."
  - Almost one-third (32%) of parents don't have an investment portfolio or retirement account; and more than one in four (28%) say they are not saving either for their own retirement or for their teen's college education.

- **Most parents think they are good financial role models – but there's room for improvement:**
  - Three-quarters (75%) of parents characterize themselves as good role models.
  - Overall, more moms than dads think they are successful in raising "moneywise teens (83% of moms vs. 72% of dads).
  - One third (33%) of parents say their spouse or partner is not a good financial role model.
  - Most parents describe themselves as a "Quick Spender" (52%) vs. a "Stellar Saver" (48%).

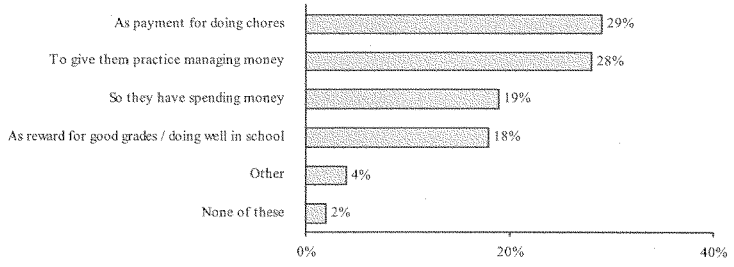
**Areas where parents feel they could do a better job teaching & preparing their teens**




## TEENS AND ALLOWANCE

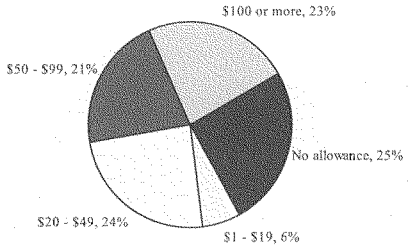
- **Parents give their teens an allowance for a variety of reasons.**

**Top reasons parents give their teens an allowance**



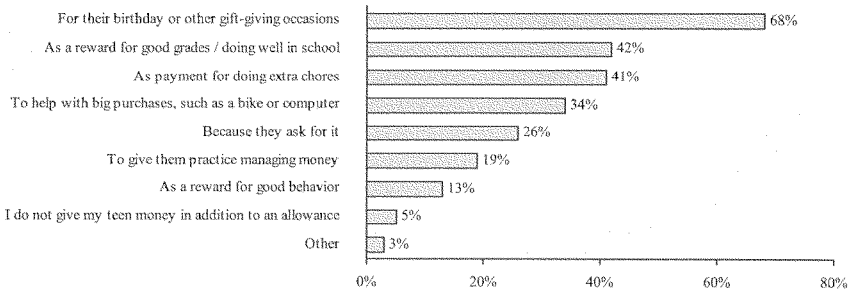
- **There's no "standard" for giving an allowance:**
  - On average, parents give their teens an allowance of $94/month.
  - One in four (24%) parents does not give their teen any allowance at all.
  - Nearly two out of three (60%) parents say their teen began receiving a regular allowance between seven and 12 years old.

**How much allowance teens receive monthly**




- **Among parents who give their teen an allowance, more than half (52%) require their teen to use it to pay for at least some necessities:**
  - Necessities that parents expect their teen to at least partially pay for include: clothing (32%), transportation (21%), and food (21%) – defined as lunch or groceries.

**Reasons parents give teens extra money on top of regular allowance**

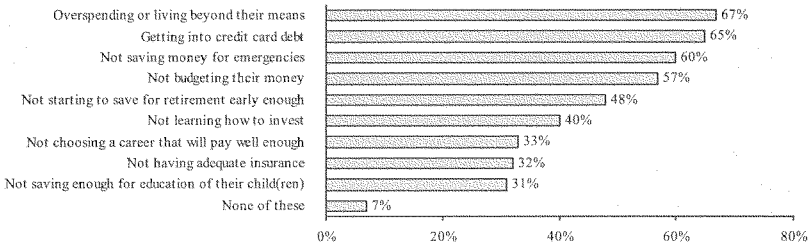


## PARENTS' VIEW OF THEIR TEENS' FINANCIAL FUTURE

- **Parents express optimism about their teens' future financial success:**
  - The majority (56%) of parents think their teen will do "better" financially than they have.
  - About one in four (24%) think their teen will do "the same" as they have.
  - Fewer than one in ten (9%) think their teen will do worse.

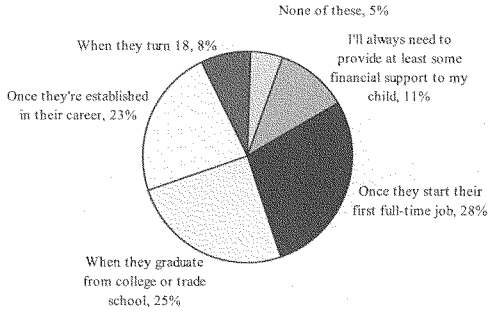
- **Yet an overwhelming majority of parents have worries, too:**
  - Ninety-three percent of parents worry their children may make financial missteps.

**Financial missteps parents are afraid their teens might make**




- **Parents anticipate a boomerang effect:**
  - Nearly three out four (71%) parents think it is likely that their child will move back home (or stay at home) for at least a little while after finishing schooling.
  - On average, parents say they would allow their child to live at home for six months before asking them to contribute toward the household expenses.
  - Twenty percent of parents say they would "never" ask their child to contribute to the household expenses.

**When parents anticipate they will no longer need to provide at least some financial support to their child**


None of these, 5%
When they turn 18, 8%
I'll always need to provide at least some financial support to my child, 11%
Once they're established in their career, 23%
Once they start their first full-time job, 28%
When they graduate from college or trade school, 25%

- **Parents are divided about needing support from their kids in their "golden years:"**
  - Equal numbers of parents think "they will help me" (33%), "I will help them" (33%) and "neither generation will need help" (35%).
  - Dads are more cynical about this than moms; nearly four in ten (39%) anticipate their child will need help vs. just 26% of moms.

- **Expectations for teens' retirement:**
  - Half (50%) of all parents think their teens will need to have less than $500,000 saved to retire by age 65.
  - Almost four out of ten (38%) parents believe their teen will need less than $200,000.

**About the Parents & Money Survey**
The *Parents & Money* survey was conducted by Kelton Research, a research consulting firm, on behalf of Schwab. The nationally-representative online survey polled 1,000 American parents with teens between the ages of 13-18 to better understand their views, behavior and knowledge of spending, saving, borrowing, and earning money. The survey findings have a margin of error of plus or minus 3 percentage points at the 95 percent confidence level.

**About Charles Schwab**
The Charles Schwab Corporation (Nasdaq: SCHW) is a leading provider of financial services, with more than 300 offices and 7.1 million client brokerage accounts, 1.3 million corporate retirement plan participants, 286,000 banking accounts, and $1.4 trillion in client assets. Through its operating subsidiaries, the company provides a full range of securities brokerage, banking, money management and financial advisory services to individual investors and independent investment advisors. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (member SIPC, http://www.sipc.org), and affiliates offer a complete range of investment services and products including an extensive selection of mutual funds; financial planning and investment advice; retirement plan and equity compensation plan services; referrals to independent fee-based investment advisors; and custodial, operational and trading support for independent, fee-based investment advisors through its Schwab Institutional division. The Charles Schwab Bank, (member FDIC) provides banking and mortgage services and products. More information is available at www.schwab.com. (0308-5254)

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**House Financial Services Committee, April 15, 2008**
**Hearing on Financial Literacy and Education**

**Questions for the Record**

A.

1. **Did Wise, in fact, previously make overtures to the Department about partnering?**

   Wise is among the many financial organizations with which the Department has had a working relationship.

2. **Did Wise offer specific proposals to the Department regarding the details of such a partnership?**

   Wise has outlined how it envisions working with the Department.

3. **Did the Department reject Wise's overtures and, if so, why did you reject their overtures and why did you then testify that the Department was planning to partner with Wise?**

   At this time we do not envision entering into a specific agreement with Wise. In a series of calls and meetings with Wise in late 2007 and early 2008, Wise was informed of the Department's plans to develop a new test and awards program. Although the Department did not require Wise's expertise in developing a new testing instrument, the Department also informed Wise that it welcomed assistance in promoting and using the new test and awards program. The Department also informed at least 100 other financial education organizations that it welcomed assistance in promoting the new test and awards programs to high school teachers.

4. **Given the overtures by Wise and specific, prior Wise proposals, as well as your testimony that Treasury was planning to work with Wise, how do you envision the partnership arrangement? Specifically, will Treasury adopt any of the Wise partnership arrangements and, if not, why not?**

   At this time we do not envision entering into a specific agreement with Wise. Although our vision for the National Financial Literacy Challenge may be somewhat different than Wise's approach, we remain interested in working with the organization. The success of Treasury's test and awards program will largely depend on other organizations like Wise promoting and administering it.

B.

1. **You stated that Treasury hired four professors to develop a new test for the upcoming High School Challenge. Please submit documentation, including emails between staff, detailing the procurement procedures Treasury followed in soliciting and retaining these services by the professors. How are the professors being compensated and at what** level?

   Treasury engaged the services of four professors to develop its financial literacy test. Three of those professors were hired directly by Treasury as temporary employees. They were hired for short-term appointments (approximately 100 days) at the GS-15 level under the excepted service hiring procedures. No procurement action was undertaken with respect to those three professors. The services of the fourth professor were obtained through a contract awarded to the Trustees of Dartmouth College. Like the temporary appointments, the contract was of short duration, lasting from 8/20/07 through 12/31/07. The value of the contract was approximately $5,000. Due to the relatively small dollar value of the acquisition, Treasury utilized the simplified acquisition procedures discussed in Part 13 of the Federal Acquisition Regulation.

2. **If the contract was not competitively bid, please cite your legal authority for this non-competitive award, justification for forgoing the competitive process and detailed documentation, including emails between staff, regarding the process used to identify the professors for the project.**

   As noted above, only one of the four professors was hired by Treasury via a procurement action. Due to the modest dollar value of that acquisition, Treasury utilized the simplified acquisition procedures described in Part 13 of the Federal Acquisition Regulation. By statute, simplified acquisitions are exempt from the competitive procedures that ordinarily apply to Federal procurements. See 41 USC § 253(a)(1) and (g).

3. **Given that Treasury recognized the Wise program last fall with its John Sherman Award for Excellence in Financial Education as a model suitable for replication by others, please explain why Treasury did not invite Wise to be a part of its test development team.**

   To formulate its test development team, in 2007 the Department consulted the four largest and most established national organizations dedicated to financial education for young people. It was decided that non-governmental economists would be needed for the project. Based on their knowledge and expertise, each of the four organizations recommended an economist. The four economists comprised the test development team.

4. **You testified that Treasury's High School Challenge is an important opportunity to measure the current level of financial literacy of high school students across the country. Why isn't Treasury focused and undertaking, as Wise does, on the more vital task of actually improving financial literacy?**

   By offering a competitive opportunity for high school students, the Department aims to reinforce its support for the hundreds of existing financial education providers operating in U.S. high schools. It is hoped the new test and awards program will help the financial education community convince additional teachers to incorporate financial education into their classrooms. The Department believes that the multiplier effect of this additional exposure will ultimately help more young people become financially literate.

5. **Please explain and document what factors led Treasury to conclude it was necessary for it to use taxpayer dollars to develop an entirely new unproven test when Wise's proven, validated testing program recognized by Treasury in 2007 with the John Sherman Award for Excellence in Financial Education already existed?**

   The purpose of the National Financial Literacy Challenge is to provide an incentive for more students and teachers to make use of existing financial education programs at the high school level. If a test was chosen that was tied to any individual program, it would have given students enrolled in that program an advantage over students who participated in other programs. This, in turn, would have discouraged teachers affiliated with these other programs from registering their students in the Treasury program.

   For these reasons, the Department developed a new, program-neutral test that afforded all high school students an equal opportunity to demonstrate personal financial knowledge and to be recognized.

wise | Financial Literacy CERTIFICATION

**House Financial Services Committee April 15, 2008**
**Hearing on Financial Literacy and Education**

**Questions for the Record**

**Phyllis Frankfort**
**President and CEO of Working In Support of Education**

A) **Question: You stated at the April 15 hearing on financial literacy before the House Financial Services Committee that wise was approached by Treasury Department officials in 2007 to learn more about your financial literacy instruction and certification program. Please provide a chronology of wise's dealings with the Department.**

**Answer: Chronology of interaction between Treasury Department Officials and wise**

- The Treasurer of the United States visited New York City in early Fall 2006 to personally observe one of wise's participating high schools, and learn about the Program by talking to students, teachers and wise officials
- The Treasurer returned to New York City in November 2006 to keynote a wise-sponsored financial literacy event (the annual MoneyPOWER conference). During her address, she made the following observation about wise's program: "It is absolutely critical, for the economy as a whole, that citizens are well prepared to manage their finances and make those finances work for them in the future. I think this program is a phenomenal example of what people can do, [what] state and local governments, community organizations and dedicated teachers can do to impart to young people in high school the knowledge, the skill, the basic information they need to be successful"
- Later in the fall of 2006, the Deputy Assistant Secretary of the Office of Financial Education meet with wise officials in New York City to learn in detail about the organization's Financial Literacy Certification Program and test.
- On June 6, 2007, the Treasurer contacted wise by phone, explained that the White House was interested in financial literacy as a potential legacy opportunity for the President and was considering the launch of a national financial literacy initiative. The Treasurer asked if wise would work with the Department to support such an initiative. wise readily affirmed that it would.
- In a second conversation two weeks later, the Treasurer reaffirmed her interest in wise's Program serving as a possible pillar to support the potential White House financial literacy initiative. In response to a specific request from the Treasurer, wise furnished her with two test samples. The test samples were marked "Confidential."

- wise learned informally in mid-August that the Department had decided to launch a financial literacy initiative.
- In a September 10 Washington, DC meeting, the Deputy Assistant Secretary confirmed that the Administration planned to launch its own financial literacy initiative. wise understood (as has subsequently been announced) that the initiative would focus on several target audiences, including high school students, that the high school portion would involve a national test to determine students' financial literacy and that there would be a process to distribute Presidential awards. Unlike the proven wise Program, students only would be measured on the level of their financial literacy on the day of the test that would not be connected to any personal finance instruction. In short, it appeared that the test would be merely a snapshot of students' financial literacy at that specific point in time.
- The Deputy Assistant Secretary also told wise on September 10 that the Department retained a group of research professionals to prepare an entirely new assessment test for its initiative. Rather than offer wise a role in the Department's initiative, he told the organization to come up with ideas for how it could add value to the initiative, in which case he would consider whether wise might become involved. However, he provided no specifics or information about the Department's program that would enable wise identify how it might play a role. He explicitly rejected wise's suggestion that the Department use wise's recognized and validated test rather than creating an entirely new, unproven test of its own. He also ignored wise's offer to work with the Department's team of researchers to help develop the Department's proposed test.
- The Deputy Assistant Secretary in a September 27 follow up telephone conference reaffirmed the Department's plan to distribute its own high school financial literacy test. wise strenuously argued that the Department's proposed snapshot test could materially undermine wise's comprehensive Financial Literacy Program, but the Deputy Assistant Secretary was unsympathetic. In addition, he continued to place the burden on wise to show how wise's proven Program and test could add value to the Department's unproven one.
- A wise official and the Treasurer had a chance October 4 meeting in New York at the Department's Eastern Regional Conference on Reaching the Unbanked. wise again expressed concern about the unfairness and short sightedness of the Department's failure to include wise as part of its initiative and about the threat that the Department's initiative may pose to wise. The Treasurer said she had instructed the Deputy Assistant Secretary to involve wise; she also promised to investigate the matter and report back after she had done so. She did not respond.
- The Deputy Assistant Secretary called wise on January 7, 2008. He indicated that he had received inquiries from a member of the House of Representatives about the concerns wise had raised about the Treasury's planned test. During this telephone conversation, wise made several proposals about how the Treasury and wise might work together (for details about the specific proposals made, please refer to the answer to question C below). The Deputy Assistant Secretary remained unsympathetic to wise's concerns. He specifically noted that Treasury could not sole source the development and delivery of its planned test to a single vendor.

- At the Department's invitation, wise met on February 13 with David Nason, Assistant Secretary for Financial Institutions, and the Treasurer in Washington DC, the same day as the President's Advisory Council announced Treasury's proposal to launch a High School Challenge – the name the Department adopted for its high school test. Both were contrite and apologized. Both offered to find a solution. wise again presented proposals for how the Department and wise might work together on the Challenge. Nevertheless, they offered no meaningful response to wise's proposals and no alternative solution of their own to address wise's serious concerns. Instead, as a first step towards finding a possible partnership arrangement, the Assistant Secretary and the Treasurer asked wise to review the Department's High School Challenge test. wise agreed to do so.
- Since the meeting on February 13, wise has communicated with the Assistant Secretary via email on February 20, March 12 and April 22 asking for a) follow up regarding the agreement to review the Department's test; b) clarification about the contracting process followed by the Treasury in selecting the individuals it appointed to develop the High School Challenge test and c) clarification about why, given the flexibility afforded by FAR 6.320-7, the Department claims that it cannot sole source its test to a third party vendor. The Department responded to two of wise's three emails on March 7 (the Assistant Secretary) and April 14 (the Deputy Assistant Secretary) respectively. Aside from offering general assurance that, in the Treasury's view, the High School Challenge test was developed legally, these emails did not specifically respond to wise's inquiries, did not propose a date on which wise will receive a copy of or will be able to review the High School Challenge test and did not offer any further indication that the Department might partner with wise regarding the implementation of the test. The High School Challenge, meanwhile, was launched on April 28, 2008 without addressing any of the issues raised by wise and any involvement by wise.
- On May 7th, after the High School Challenge was launched, the Director of Outreach in the Office of Financial Education of the Department contacted wise by email to set up a meeting to give wise the opportunity to review the High School Challenge test. The meeting was held on May 22nd in wise's offices in New York. The Director of Outreach gave wise the opportunity to review the High School Challenge test. The review revealed that the Department's test is not a copy of wise's test questions; it also revealed, however, that the Department's test would have benefited substantially, had wise been involved in its preparation. wise reiterated that the Challenge, incorporating not just a test, but both testing and recognition is a mirror image of wise's own program. The Director also explained that the Department plans to repeat the High School Challenge in October 2008 and asked if wise would be willing to support it in a distributive capacity only. The discussion, while more constructive than those prior to it, was inconclusive.

B: **Question: What materials on your program did the Department request? Please describe what materials were provided by w!se and the date(s) they were provided.**

**Answer: Materials requested on w!se's Financial Literacy Certification Program requested by Treasury Department and materials provided by w!se.**

During their visits to New York in the late fall of 2006, w!se provided the Treasurer and the Deputy Assistant Secretary with a package of information about its Financial Literacy Certification Program that included a program description and a copy of the "Blue Star" Psychometric Report that w!se prepares annually. This report analyzes the program's effectiveness, including the results of w!se's standardized test.

On June 11, 2007, w!se and the Treasurer conducted a telephone conversation about the Treasury Department's planned financial literacy initiative. During the conversation, the Treasurer asked w!se to send her examples of w!se's copyrighted Financial Literacy Certification Test. Under the condition of non-disclosure and confidentiality, w!se sent a package containing two of w!se's Financial Literacy Certification Tests to the US Treasurer on June 12, 2007.

C: **Question: Please provide details on wise's offer to assist the Department with the development of its High School Challenge. Please include the specific proposals you presented to the Department to partner or work cooperatively together to improve the level of youth financial literacy.**

The first proposal to assist with the development of the High School Challenge came from the Treasury Department, not from wise. On June 6, 2007, United States Treasurer, Anna Cabral, contacted wise by telephone to ask if wise could take its Financial Literacy Certification Program to scale nationally to support the Department's planned financial literacy initiative. The Treasurer specifically asked if wise would be willing, using wise's copyrighted Financial Literacy Certification Test, to support the high school component of this initiative. wise noted that it could, indeed, take its program to scale and readily agreed to offer the requested support. At this juncture, the understood parameter of a potential partnership was that Treasury would contract with wise to use wise's Financial Literacy Certification Test for purposes of the (later named) High School Challenge test. In reliance on this understood arrangement, wise provided via Federal Express mail two copies of its test to the Treasurer, when she asked for a sample of them in a second telephone conversation with wise on June 12th, 2007.

After receiving copies of wise's validated and proven test, Treasury declared, in a September 10, 2007 meeting in Washington between wise and the Deputy Assistant Secretary, (and to wise's astonishment) that the Department had retained a group of research professionals to prepare an entirely new assessment test for its initiative. Rather than offer wise a role in the Department's initiative, he told the organization to come up with ideas for how it could add value to the initiative, in which case he would consider whether wise might become involved. However, he provided no specifics or information that would enable wise identify how it might play a role. He was not willing to entertain several specific proposals wise made at the meeting for wise and the Department to work cooperatively.

- One proposal, naturally, was that the Department reconsider its position and elect to use wise's existing certification test, in lieu of the Department creating its own new one.
- A second proposal was that the Department use a combination of wise's recognized and validated test with some new test items developed by the Department's appointed team of researchers
- The third proposal was that wise, given its vast experience in the field of high school financial literacy testing could work with the Department's team of researchers to help develop the Department's proposed test and or the working group appointed by the Department to assess the broader financial education needs of U.S. youth.

He also failed to appreciate that the development of a new test by the Department without any alignment with or involvement of wise would present a confusing and redundant choice to high schools already participating in the program.

In subsequent conversations with the Deputy Assistant Secretary on September 27, 2007, with the Deputy Assistant Secretary on January 7, 2008, and with the Assistant Secretary and Treasurer on February 13, 2008, and in written communication with the Assistant Secretary and Treasurer on March 20, 2008, wise has presented several alternative proposals to the Department about how it and wise could partner or work cooperatively together. These proposals included the following:

- The Department launching a presidential awards program (but not a test) with the award being bestowed upon students who perform well on the wise certification test
- A wise-Treasury partnership under which the Department's test would be used as a pre-instruction measure of financial literacy and the wise test to measure post-instruction learning.
- The Department bestowing a Presidential award on students who perform at or above a mutually determined level on the wise test (as well as students participating in the Challenge)
- The Department launching a periodic survey, but not a test, to gauge the financial literacy of students across the country

During these conversations, wise continued to try and persuade the Department to use wise's proven and validated certification testing service, in whole or in part, as the more logical, efficient and economical (from the taxpayer standpoint) way forward. wise also tried, without success, to understand the Department's logic for not using an existing product and for wasting taxpayer dollars. All of the above proposals have been ignored by Treasury and not one proposal or counter-proposal has been made.

In sum, wise has a product – its Financial Literacy Certification instructional program and Test together with student recognition involving certificates and medals– that has had a profound and positive impact on youth financial literacy since the test was first introduced in 2003. My written testimony provides some statistics attesting to this fact. The test and wise's overarching Financial Literacy Certification Program has been recognized by the Department by awarding wise last fall its coveted John Sherman Award for Excellence in Financial Education. The Department, therefore, had a ready, willing and committed partner in wise to deploy its successful and award winning product as part of its High School Challenge. However, without any stated, let alone compelling, reason, the Department decided to pass up on a unique opportunity to fuel the growth of wise's already successful product, rejected all overtures from wise to partner and work collaboratively together and elected instead to "reinvent the wheel" with a duplicative test and recognition initiative of its own. In this global and information age, one in which the very concept of "reinventing the wheel" has been firmly rejected by the business, financial and academic community, the Department's decision is distinctly outmoded and a missed opportunity for leadership and innovation. wise's position remains that the Department should devote its energies elsewhere.

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